FINANCIAL TIMES

PUBLISHED IN LONDON AND FRANKFURT

No. 28,176 Tuesday May 27 1980 ***20p

CONTINENTAL SELLING PRICES: AUSTRIA Sch 15; BELGIUM Fr 28; DENMARK Kr 5.00; FRANCE Fr 4; GERMANY DM 2.0; ITALY L 700; NETHERLANDS Fl 2.0; NORWAY Kr 5.00; PORTUGAL Esc 35; SPAIN Pts 70; SWEDEN Kr 5.00; SWITZERLAND Fr 2.0; EIRE 20p; MALTA 20c

NEWS SUMMARY

GENERAL

Bush out of White House race

George Bush withdrew as contender for the Republican presidential nomination "because of the public perception that the race was over."

The certainty that Ronald Reagan will get the nomination in July dried up funds for Mr. Bush.

But he said he technically remained a candidate to qualify for federal funds to reduce his campaign debt. Page 2

Iran mission

Three European Socialist leaders headed by Austrian Chancellor Bruno Kreisky were due to end their brief fact-finding mission to Iran aimed at helping to free the American hostages. Back page.

Briton held

British freelance correspondent Nicholas Cumming-Bruce of The Guardian was detained by revolutionary guards in Tehran because he did not hold a valid press visa.

Kampuchea plea

UN secretary-general Kurt Weldheim opening a two-day conference on Kampuchea appealed for £77m in world aid to stave off catastrophe. Page 2

Assam violence

Four people died and more than 2,000 were reported hurt during demonstrations by minority settlers against moves to expel them from India's Assam state. Seven towns were put under curfew.

Housekeeper dies

Housekeeper of the Kent priest found murdered on Friday died in Ramsgate hospital without regaining consciousness. Detectives are hunting Henry John Gallagher who failed to return to Maidstone prison after a visit home to Dundee.

Boy 'snatched'

Scottish police are investigating reports that 10-year-old Raymond Plack may have been taken from a Roman Catholic home near Edinburgh by Protestant extremists called in by his father.

Richardson appeal

Police hunting former underworld gang leader Charles Richardson appealed for help from motorists on the A41 Aylesbury-London road on Saturday morning.

Bologna ban

Italian Football Federation investigating bribery allegations banned the president of first division club Bologna for one year and two players for three and a half years.

Court protest

Demonstrators chanting "Welfare, not fanfare" clashed with police as the Queen opened Australia's new £23m High Court building in Canberra.

Briefly . . .

Orkney's first parking meters are to be introduced in Kirkwall on July 1.

Total of 155 tremors have rocked the Mount Kopanonik area of southern Yugoslavia in the last week.

Nearly 40,000 cars an hour were estimated to be leaving London on the Bank Holiday yesterday.

Catering staff at Madrid airport ended a 94-day strike.

BUSINESS

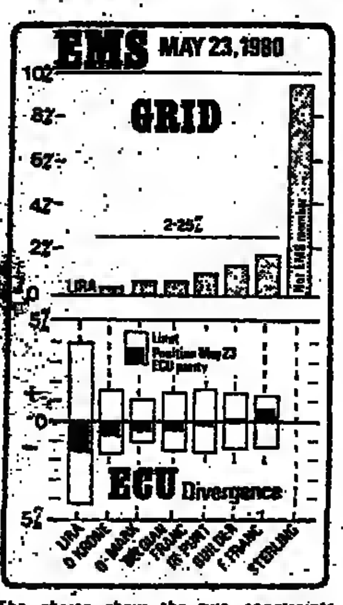
Strong sterling boosts BNOC

● STERLING'S strength against the dollar has enabled British National Oil Corporation to fund itself for three years with $825m (£352m) of loans at a net cost of only £2m. Back Page

● FRENCH franc continued as the strongest currency within the European Monetary System last week, followed by the Dutch guilder. Short-term money rates have remained firm in Paris and this helped the franc to maintain its position.

The Belgian franc was slightly easier, falling below the Irish punt, but maintaining its position above the D-mark and Danish krone.

The Italian lira was once again the weakest member of the system, although there was no pressure on the currency and it remained within its maximum permitted divergence by a comfortable margin.



The charts show the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

● UK MERCHANT shipping fleet fell by 6.2m deadweight tons last year, the sharpest drop for 35 years, but the General Council of British Shipping believes the decline is almost over. Page 5

● NEW METHOD of deep sea oil production, using submarine-like seabed complexes manned by crews of up to 50, is being developed by a consortium of four leading British companies. Page 4

● USE of Government aid for the UK machine tool industry has been attacked by the National Institute of Economic and Social Research. Back Page

● AGREEMENT has been reached on the merger of Hong Kong's four Stock Exchanges. Back Page

● MOTOR-CYCLE sales in the UK are expected to reach a record level this year. Sales in April were almost a third higher than a year ago.

● GAS industry in Northern Ireland faces virtual collapse following the Government's decision not to lay a natural gas pipeline to the province from Scotland. Page 4

● FT GROCERY Prices Index rose 2.3 per cent — the highest monthly increase for almost a year — in May. Page 7

● OMAN has raised the price of its crude oil by $2 to $32.20 a barrel.

● SHEFFIELD and South Yorkshire Navigation has received an EEC grant of more than £1m for civil engineering on Britain's first major canal development for 50 years. Page 5

CONTENTS

For latest Share Index phone 01-246 8026.

NATIONAL INSTITUTE QUARTERLY REVIEW

Pay round 'likely to harm economy for several years'

BY ANTHONY HARRIS

THE LIKELY level of wage increases in the next bargaining round will cause a massive squeeze on company profits, which will depress the economy for several years, says the National Institute of Economic and Social Research.

Meanwhile, the fall in the inflation rate may be "painfully slow, extending over several years before even reaching single figures."

This prospect would be transformed if wage settlements could be reduced sharply, says the National Institute's quarterly review, published today. Such a fall is thought highly unlikely in a free labour market.

The forecast for the immediate future is less gloomy than the general consensus, projecting a fall of only 1 per cent in GNP in 1980, with a drop of 2½ per cent in manufacturing output, followed by a rise of 2½ per cent in GNP in 1981. This is a considerably higher figure than that suggested in the Treasury forecast published with the Budget.

The National Institute fears that further recovery will then be impeded for several years by the drop in investment likely to result from the squeeze on corporate cash flow.

"The impact on the non-oil, non-financial company sector will still be apparent in 1983-1984," the review says.

Unemployment is expected to reach 2m by the end of 1981, and will then still be rising strongly.

The core of the institute's forecast is the belief that wages tend to rise in line with retail prices, and are influenced little, if at all, by monetary targets. "Events so far have justified our scepticism," the review comments.

This implies that the main impact of the Government's squeeze must fall on industrial profit margins outside the oil industry.

Gross trading profits are expected to collapse from £15bn in 1979 to £4½bn this year and £2½bn next—in real terms, less than a third of their value in the previous trough in 1975.

Details, Page 6
Lombard, Page 12
Lex, Back Page
Machine tool industry "backward", Back Page

This, in turn, generates a forecast that the non-oil corporate sector will need to borrow £10bn this year and £11bn in 1981.

Partly for this reason, the institute is pessimistic about the prospect for interest rates, despite the forecast reduction in public sector borrowing, which is regarded as achievable.

After taking account of the increase in the reported money supply which will result from the abolition of the banking "corset" next month, and the Government's reduced target for monetary growth next year, the review concludes: "Interest rates are likely to have to remain at current levels in the second half of this year, and the scope for further falls in 1981 is limited."

It emphasises that there must be unusual uncertainty about the details of its own or any other economic forecast at present, because the distortions in the economy caused by wage pressure, tight money and a high exchange rate are unprecedented.

"The departure from previous trends of behaviour in growth, productivity, interest rates, price and wage inflation is cumulatively so great that it becomes increasingly unlikely that the underlying characteristics of the economy are unchanged."

If the balance of relative interest rates and the influence of North Sea oil on the exchange rate should change to permit some easing in the exchange rate, the pressures the review forecasts would be less extreme.

Eased wage pressure would help even more, leading immediately to lower inflation and improved profit margins.

However, the institute regards the relation between wages and prices as strong, and unlikely to be broken by either the pressures on company liquidity or by the expected rise in unemployment.

"Only conscious reform of the wage bargaining situation will suffice," the review concludes.

Troops ready to take Kwangju

By Our Foreign Staff

TEN THOUSAND South Korean troops prepared last night to take the besieged south-western city of Kwangju by force following the breakdown of negotiations with armed students still controlling the centre of the city after an open rebellion six days ago.

Heavily-armed students holding out in the centre of the provincial capital, threatened to blow up the city using dynamite commandeered from local mines if the army carried out its threat to move in with force to take the city.

The army had set a deadline for the students to hand over their arms, but several hours after the deadline had passed the army had still not moved in.

An estimated 250 people have died in the uprising—the worst in over two decades. There are growing fears that unless the crisis is resolved promptly, the consequences for the economy, which is already in difficulties, will be severe.

Regular troops surrounding Kwangju easily outnumber the students in men and fire power but a clash between the two sides could entail very serious risks.

The students, numbering a few hundred, represent the core of a group of Kwangju residents who protested against repressive measures announced early last week by the central Government.

UK goes ahead with Seoul exhibition. Page 3

Sadat asks U.S. to aid peace talks

BY OUR FOREIGN STAFF

PRESIDENT ANWAR SADAT of Egypt, says the U.S. must come forward with its own proposals to break the deadlock that prevented Egypt and Israel from meeting Monday's target date for an agreement on Palestinian autonomy.

"That is what I am asking now . . ." President Sadat said in an interview in Egypt with the Washington Post published yesterday. "It may be an American paper, an American proposal or American efforts between us and Israel to find some compromise in between so we can proceed with the talks," he added.

President Sadat also said the negotiations "will never collapse, for the very simple reason that between Egypt and Israel there is a treaty now, there are good relations, there is good neighbourliness, there is a table around which we sit even if we are different."

At the same time Egypt is now formally resigned to the fact that as Mr. Carter feels unable to place any pressure on Israel because of his electoral campaign the Camp David process is likely to be stagnant until November.

President Sadat suspended the negotiations with Israel on May 8 after a Bill was drafted in the Israeli Knesset (Parliament) declaring Jerusalem to be "the eternal, indivisible Capital of the Jewish State." The Egyptian leader said that amounted to putting a precondition on the negotiations. "No party should put preconditions or pressures on the other, and let us continue the talks," he appealed.

Yesterday Mr. Kamal Hassan Ali, one of Mr. Sadat's six new Deputy Premiers, said yesterday that Egypt was prepared to abandon the negotiating framework provided for by the Camp David accords if no agreement on autonomy for the Arabs of the West Bank and Gaza Strip was reached in 10 months.

Egypt was ready to wait until after the U.S. presidential election, but would then expect rapid progress on the question, he explained. Following the failure to meet the May 26 deadline for completion of the talks which only got down to matters of substance last month, after a year of exchanges, negotiations quickly foundered over the question of responsibility for security in the territories.

On another topic, President Sadat proposed that American F-15 jet fighters and other sophisticated U.S. weapons be permanently stationed in Egypt to be turned over immediately to U.S. forces in times of crises in the Middle East.

But he said he would never accept U.S. combat troops or a

Continued on Back Page
Editorial comment, Page 14

BL weathers car sales fall

FINANCIAL TIMES REPORTER

UK CAR SALES are continuing to decline from the high levels of earlier this year, according to unofficial figures circulating within the industry.

Sales for the first three weeks of this month totalled only 87,000, suggesting a large fall from the 193,000 cars sold in May last year.

BL is taking some encouragement from retaining a 20 per cent share in a fiercely competitive market. The Marina model alone, backed by a price cut, is thought to have captured around eight per cent.

But Ford remains clear leader with 30.6 per cent, with Vauxhall 7.1 per cent and Talbot at 5.9 per cent. Imports are running at 55.7 per cent.

Market performance is crucial to BL Cars in a year when maintaining cash flow will be the key test. Some dealers argue that the company should reintroduce bonus payments to remain competitive in the fleet market when other networks are making special offers.

But this was rejected last night by Mr. Ray Horrocks, BL Cars managing director. He said price reductions on the Marina and Maxi had created extra customer interest. A new Morris would be launched in July to replace the Marina.

"Our dealer network is now better placed to face the future than most others in the country," he said.

The "Buy British" campaign had reduced stocks in the network and at factories by [illegible]0,000 to around 100,000. There was now a good balance of models. To safeguard longer-term cash flow, factory closures and de-manning has been accelerated.

By the end of this month 12,000 jobs will have been lost of the 25,000 cuts announced by Sir Michael Edwardes, the BL chairman, last September.

Some 2,000 workers have been shed at Canley, Coventry, with the transfer three months ahead of target of Triumph TR7 production to Solihull, Birmingham. A similar number has left Castle Bromwich, Birmingham, with the transfer of Rover body manufacture at Cowley, Oxford.

BL's new car progress. Page 4

EEC renews search for end to budget row

BY JOHN WYLES IN BRUSSELS

EEC GOVERNMENTS will renew their search this week for an end to the increasingly damaging dispute over Britain's payments to the Community budget with little prospect of meeting their end-of-the-month deadline for settlement.

Without an unforeseen burst of political will, it appears more and more likely that the dispute will, for the third time in seven months, pre-occupy an EEC Heads of Government summit, this time in Venice on June 12-13.

By then, France could well be trying to deny the UK one of its principal bargaining cards—the fact that Britain can block the 5 per cent rise in farm prices agreed by the other Eight.

Unless Britain drops the veto, which it will not without the budget deal, then France is set to launch a national scheme from June 1 designed to give its farmers an equivalent rise in incomes.

This is bound to increase the Community's internal disarray. But the prospect of a new phase in the budget crisis has not yet persuaded West Germany or France to abandon the sulky resentment generated at last month's Luxembourg summit by Britain's rejection of a Franco-German offer to cut the UK's payments this year and next, by £765m.

The subsequent withdrawal of this offer has cloaked the issue in such inertia that it is still not clear whether Community Foreign Ministers will meet on Thursday to attempt to negotiate an outline agreement which could be rubber-stamped in Venice.

The Italian Government, which occupies the Community presidency, will take a final decision on whether to press ahead with this meeting after hearing discussion today by EEC Finance and Economics Ministers.

This group has never dealt in detail with the British problem and today's session is unlikely to do more than approve new figures produced late last week by the European Commission as a basis for negotiations.

These figures suggest that the UK's net payments to Brussels will rise from £1.16bn this year to between £1.36bn and £1.41bn in 1981, depending on how much farm spending arises next year.

The Commission indicates there should be enough money in the Brussels kitty to finance a substantial reduction in the UK's net payments in 1980 and 1981. But the British could find the cupboard bare in 1982, the Commission's forecasts suggest, unless agriculture costs are much more rigorously controlled than hitherto.

EEC farms ministers, meanwhile, will meet tomorrow and on Thursday to grapple, among other things, with the Anglo-French lamb row which France wants settled with the UK budget problem as part of a package deal.

Japan scoops new ship orders

BY WILLIAM HALL, SHIPPING CORRESPONDENT

THE SIZE of the order books of the world's shipyards continues to rise but Japanese shipbuilders are capturing the majority of the orders and increasing their dominance of the world shipbuilding industry.

Over the last three months, 333 ships totalling 12.0m dwt have been ordered and roughly two-thirds of the orders have been placed in Japanese yards.

During the last 12 months the size of the Japanese order book has more than doubled to 25.1m dwt while the total world shipbuilding order book has risen by less than a quarter to 63.2m dwt.

In its latest edition of World Ships on Order, Fairplay International reports that in the three-month period ending April, 1980, the world ship order book rose by 2.4m dwt over the previous quarter.

During the latest period 82 bulk carriers totalling 5.5m dwt and 134 tankers of 5.5m dwt were ordered. In the comparable period of last year only 1.2m dwt of bulk carriers and 2.6m dwt of tankers were ordered, which gives some idea of the improvement in confidence among the world's shipping companies.

Within the total order book the mix has changed fairly dramatically. There are only 23 tankers (5.4m dwt) of over 150,000 dwt on order whereas there are 619 tankers (24.1m dwt) of under 150,000 dwt on order. The average size of these tankers is 39,000 dwt.

Japan replaces Hong Kong at the head of the list of countries ordering new ships over the last quarter. Japanese owners ordered 53 ships totalling 2.5m dwt followed by Hong Kong (1.8m dwt), the U.S. (1.2m dwt) and Norway (1.1m dwt).

The Japanese ordered more tankers than anybody else, but both Hong Kong and Norwegian owners ordered a considerably larger amount of bulk carrier tonnage than tanker tonnage.

Once again the Fairplay statistics underline the strength of the Japanese shipbuilding industry which won 7.8m dwt of the 12m dwt of shipping ordered. South Korea captured 1m dwt of new orders and Belgium, Sweden, and the U.S. each won orders for over 400,000 dwt.

Merchant shipping fleet decline and Swire profile. Page 5

Basnett attacks other unions

BY PAULINE CLARK, LABOUR STAFF

THREE UNIONS are committing major breaches of trade union practice in the laggers dispute on the Isle of Grain power station construction site, said Mr. David Basnett, general secretary of the General and Municipal Workers Union yesterday.

His attack on unions who have allowed recruitment of non-GMWU trainee laggers came on the eve of a mass picket of laggers planned on the Isle of Grain, in Kent, today.

The GMWU hopes 6,000 laggers employed on other construction sites will join the picket.

The dispute over bonus payments for laggers has developed into a major inter-union row. It will be discussed by leaders of all the unions involved at a meeting called by Mr. Len Murray, TUC general secretary, tomorrow.

OVERSEAS NEWS

Bush withdraws from race for Presidency

BY DAVID BUCHAN IN WASHINGTON

MR. GEORGE BUSH yesterday finally said he was quitting his two year long bid for the Republican presidential nomination, and he congratulated Mr. Ronald Reagan on his "superb victory" in the overwhelming number of primary elections so far this year.


Mr. George Bush . . . most dogged challenger

As Mr. Reagan's last and most dogged challenger has bowed out, he can count as a formality that the Republican Party convention will bestow on him its presidential nomination when it meets in Detroit in July. This will most likely pit him against President Jimmy Carter, as the Democratic contender, and possibly Mr. John Anderson, running as an independent in the November election.

By all estimates, Mr. Reagan now has at least enough Republican delegates (998) to be assured of winning his party's nomination—and this is before the last and major round of primaries, to be held on June 3.

Mr. Bush, whose campaign has gradually slid downhill since he trounced Mr. Reagan in January in Iowa, the opening campaign battle, said yesterday in his home city of Houston, Texas, that he had pulled out because of the public perception that the race was over.

The certainty that the former California governor will get the Republican nomination has dried up funds for Mr. Bush. However, the former Ambassador to the United Nations said he technically remained a candidate, so as to qualify for federal matching campaign funds to reduce his campaign debt.

Ironically, Mr. Bush's withdrawal came only six days after his biggest primary victory over Mr. Reagan — in Michigan. But, by that time, an overall Reagan victory had come to be seen as inevitable, and the media discounted the Michigan result as something of a fluke, instead concentrating on Mr. Reagan's ever-lengthening lead in delegates.

Earlier on in the race, the Michigan victory might have brought money into the campaign—but it was too late for this, as Mr. Bush conceded yesterday.

Mr. Reagan now has several weeks before the Detroit party conclave to ruminate on his choice for a vice-presidential running mate. Given his age, 69, it is considered particularly important for Mr. Reagan whom he chooses as vice-presidential candidate, as well as for the more usual reason of political and geographical balance.

Halt called to Norway air traffic

By Fay Gjester in Oslo

A STRIKE of Norwegian air traffic controllers, starting today, will ground all civilian air traffic in Norway until Friday at the earliest. Helicopter traffic to offshore oil installations in Norway's part of the North Sea will also be hit.

The Oslo Government has asked the Storting (parliament) to make the dispute subject to compulsory arbitration, but the strike will continue until the bill authorising this has been approved —a process which will take several days.

The controllers are among a group of 600 key civil servants who have been ordered to strike by their union, the University Graduates Association, which is dissatisfied with pay increases offered to its 40,000 civil service members.

Hardest hit, the association has argued, are recent graduates, who have to repay large state education loans out of relatively modest starting salaries.

In another dispute, 2,000 offshore workers are threatening to strike from tomorrow on Norway's three producing oil and gas fields—Frigg, Statfjord and Ekofisk, over leave and pensions.

Press strike in Italy

By Rupert Cornwell in Rome

ITALIAN NEWSPAPERS will not appear today, as a result of a one-day strike by journalists in protest against the jailing of a colleague for publishing the top secret transcript of the confession of one of the most important Red Brigades terrorist leaders so far captured.

The journalist, Sig. Fabio Isman, of the Rome daily Il Messaggero, was sentenced to 18 months imprisonment for his part in the affair. His source, the deputy head of the internal secret services, Sig. Silvano Russomanno, received a 32 month term, while the paper's editor escaped with a light fine of L400,000 (£210).

FINANCIAL TIMES, published daily except Sundays and holidays. U.S. subscription rates $365.00 per annum. Second Class postage paid at New York, N.Y., and at additional mailing centres.

Sanjay Gandhi nears last base

BY K. K. SHARMA IN NEW DELHI

A SEARING midsummer sun scorches the earth of India's northern Gangetic belt, where the two most populous states of Uttar Pradesh and Bihar are located. These are politically the most important in the country.

It is election time for the fourth time in less than three years. Here they have elected their state assemblies twice. Parliamentary elections were held less than five months ago and they are to elect new state legislatures again from May 28 to 31.

Little wonder that the largely illiterate voters in Uttar Pradesh and Bihar, as well as seven other states which are to go to the polls, are blase and lethargic. As if the summer heat (midday temperatures are more than 115 degrees Fahrenheit) was not sufficiently discouraging, the entire country is gripped by the grim after-effects of last year's drought, the century's worst. The soil is dry and cracked, many villages have no drinking water and mass migration of people and cattle from the worst affected areas has begun.

To make matters worse, the Indian economy shows no sign of recovery from the drought, which resulted in a shrinkage in the gross national product in 1979-80. Inflation continues unabated and has exceeded a 20 per cent annual rate.

Shortages of various goods add to the people's difficulties. Almost all the rural and urban areas in the nine states where elections are to be held face severe power cuts (because of low water levels in the reservoirs fuelling hydro-electric stations, and poor maintenance of thermal stations). There is an acute scarcity of diesel and kerosene, so villages have no lighting or fuel to run their irrigation pump sets. Sugar is not available and vegetables are highly priced.

Such a setting is hardly conducive to electioneering. Indeed, the politicians are among the few excited by the election. Meetings are thinly attended and even Mrs. Indira Gandhi, the Prime Minister, who has been on the move for the past six weeks, is finding that she is not the draw she was in the January Parliamentary election. At some of her meetings, barely a score of people were present.

This is possibly due to the summer heat, but could also be a sign of the electorate's weariness with politicians. After all, Mrs. Gandhi has so far made no impact on the country's vast economic problems and there is little to distinguish her performance from that of the Janata Party that she displaced in January.

Yet it is probable that Mrs. Gandhi's Congress (I)—the "I" for Indira—will win the elections. They are being held in the nine states where parties opposed to Mrs. Gandhi performed badly in the January Parliamentary elections. This was taken by her to mean that the non-Congress State Governments in power there had lost their mandate. The Governments were promptly dismissed, the assemblies dissolved and fresh elections were ordered.

Apart from Uttar Pradesh, the states going to the polls are Punjab, Rajasthan, Madhya Pradesh, Orissa, Gujarat, Maharashtra and the Southern state of Tamil Nadu. Although there are 22 states in India, the nine include nearly two thirds of the country's electorate, so this is almost a mini general election.

Mrs. Gandhi has the upper hand because the parties opposing her are even more divided now than in January. The various fragments into which the Janata split have been shattered by fresh rifts, with the result that there is no opposition party left with a national following or countrywide base.

At stake for Mrs. Gandhi is control of the country. When she returned to power in New Delhi in January her Congress Party was in power in only two of the 20 states. In India it is impossible to rule effectively unless the state governments co-operate. Mrs. Gandhi acted decisively to oust them and replace them with her own party.

The elections could also mean a considerable boost for Mrs. Gandhi's controversial son, Sanjay. It is known that Sanjay had a major say in the selection of candidates to be put up by the Congress Party.

In the key states of Uttar Pradesh and Bihar, an overwhelming majority of Congress candidates are Sanjay's nominees. They are mostly in their thirties or early forties and few have contested elections before. Their nomination has meant that the older members have been ignored and these are now disgruntled men.


Mrs. Indira Gandhi

Sanjay is campaigning as hard as his mother, since victory for him and his nominees would mean that he will finally have a firm political base of his own. What he is attempting is very nearly a "cultural revolution," trying to supplant older members of the Congress.

Sanjay is not yet sure of a runaway victory, since apart from the opposition parties many of the older Congress members have defied the organisation and are contesting the elections as rebel candidates. This could undermine the official Congress candidate. But if Sanjay has his way, a new Congress Party will have been born and Indian politics will enter another era.

Trade deficit widens

INDIA'S trade deficit in 1979-1980 widened to a record Rupees 22.33bn (£1.25bn) despite an 8.21 per cent increase in exports compared with the previous year, K. K. Sharma writes from New Delhi.

The main reason is the sharp increase in the cost of imports, especially oil and fertilisers, which rose to a record Rupees 82.31bn (£4.6bn), a 24.6 per cent increase from imports in 1978-79.

According to figures announced yesterday, exports in 1979-80 were valued at Rupees 59.99bn, compared with Rupees 55.44bn in the previous year.

The trade gap, which has more than doubled, has caused serious concern since it has caused foreign exchange reserves to fall for the first time in five years, and shows that earnings from exports and invisibles can no longer compensate for the sharp price rises for imported oil and petroleum products.

HK prime rates cut

BY PHILIP BOWRING IN HONG KONG

Hong Kong's interest rate-setting cartel, the Exchange Banks Association, has cut the prime lending rate by a sharp 1.5 per cent to 14.5 per cent. Bankers cited the rece[...] fall in U.S. dollar ra[...] main influence. The H[...] prime rate had been [...] cent since March. [...]

Liquidity has been high in Hong Kong recently, and banks had been maintaining a high prime rate partly in response to government urging. The size of the reduction seemed to some observers a clear rebuff for the Government, which wants a role in rate setting but refuses to intervene directly.

New Malaysian Central Bank governor appointed

BY WONG SULONG IN KUALA LUMPUR

THE MALAYSIAN Government has appointed Datuk Aziz Taha as governor of Bank Negara, the Central Bank, to succeed Tan Sri Ismail Ali, who retires in July after 18 years as governor.

The appointment has ended months of intense lobbying. Some leaders of the ruling party, the United Malays National Organisation, wanted a more politically orientated appointee, while the civil service tried to put someone from its ranks into the position.

Finally, Tan Sri Ismail, a powerful and autocratic figure of 61, made it clear he would stay on if someone other than Datuk Aziz was to succeed him, Government officials said.

Datuk Aziz, 44, worked in the private sector as a chartered accountant before joining the bank as an assistant manager in 1971.

Another protege of Tan Sri Ismail, Dr. Lin See Yan, now the bank's economic adviser, has been appointed deputy governor.

The Central Bank's conservative policies are unlikely to change significantly, although Tenegku Razaleigh, the Finance Minister, is now expected to play a bigger role in the formulation of monetary policies.

During his governorship, Tan Sri Ismail built up Bank Negara as the cover for a sound and expanding Malaysian financial system, supporting a strong currency and high foreign exchange reserves.

$130m aid pledge for Kampuchea

By Our Foreign Staff

FOOD AND AID worth more than $130m were pledged yesterday at a United Nations conference in Geneva which aims to forestall another famine in Kampuchea.

Dr. Kurt Waldheim, the UN Secretary-General, said in his opening address that a total of $180m was needed if widespread starvation was to be averted during the rest of 1980.

In early pledges, Japan said it would give an extra $100m, while the United States promised an extra $29.6m.

S. Africa police crack down on protesters

BY QUENTIN PEEL IN JOHANNESBURG

MORE THAN 100 community leaders, church leaders and political activists in the South African black, coloured (mixed race) and Indian communities are believed to have been detained in the past two days as the South African Government has sought to control a wave of student and worker unrest.

The biggest mass arrest was in Johannesburg, where riot police detained 52 clergymen marching in protest to the city's police headquarters, calling for the release of the Rev. John Thorne, former secretary-general of the South African Council of churches. He was arrested at his home over the weekend.

Among those detained were Bishop Desmond Tutu, the present secretary-general of the council and his wife Mrs. Leah Tutu, Bishop Timothy Bavin, the Anglican Bishop of Johannesburg, and the Rev. Joseph Wing, general secretary of the United Congregational Church.

Although police confirmed only a minority of the detentions yesterday, at least 30 people in the Western Cape, 25 in the Eastern Cape, and three in Kimberley are believed to be held.

The police action follows the most serious confrontation to date in the recent unrest, when riot police broke up a crowd of some 3,000 coloured pupils demonstrating in a luxury Cape Town shopping centre.

UK NEWS

Shop hours legislation reviewed

By Elinor Goodman

THE GOVERNMENT *is reviewing* the legislation controlling shop opening hours.

However, it is unlikely that the Government will embark on a major revision of the Shops Act even though Ministers acknowledge the present law throws up some extraordinary anomalies.

Instead, some of the anomalies may be cleared up or the findings of the review used to assist any Private Member wishing to introduce e *Bill on the* subject.

The Government would almost certainly upset its traditional supporters among the small business community if it tried to lift all the existing restrictions on opening hours.

The trade fears that total overhaul of the Act coud create more problems by opening up the way to seven-day trading.

Even so, there is considerable pressure from those responsible for enforeing the law to end the confusion, particularly over Sunday trading.

At present, for example, there are restrictions on fisb and chips trading on Sundays but not on Chinese restaurants, and it is easier to sell fresh foods on Sundays than canned ones.

Enforcement of the Shops Act is the responsibility of individnal local authorities. In many areas the law is not strictly enforced.

Over the years, a number of Back Benchers have tried to introduce Private Members' legislation to clarify the situation without much success.

Ray Maughan explains why Hong Kong financed an ailing industry

Cut-price gamble on Carpets International

THE PURCHASE by Hong Kong Carpet Manufacturers of a major stake in one of Europe's *largest tufted carpet manufacturers*—Carpets International—after one of the now familiar market raids last week by the stockbroking firm of Rowe and Pitman, Hirst-Brown, can hardly be described as investment in a growth industry.

The raid lifted Hong Kong Carpet Manufacturers' holding to 29.9 per cent and it will have to launch a full offer if it acquires any more shares. So far, Mr. Tony Yeh, managing director of the Far East company, *has said that the stake is* an investment. There is no immediate intention to make a foll offer.

The history of take-over bids is littered with such pre-emptive "investment" stakes but, even assuming Hong Kong Carpet Manufacturers really intends to do no more than sit on its shares, the short-term benefits must he open to doubt. The pragmatic Stock Exchange view is that the Carpets International share price has been so knocked down and Hong Kong Carpet Manufacturers has been able to buy in so cheaply *that it stands to lose very little* even if the gamble fails. The rewards of success would be handsome.

The price of 32p per share paid for the 25 per cent holding gives Carpets International a market value of just £7.6m. Shareholders' funds in the December, 1979 balance sheet, by contrast, amounted to over £38m.

The obvious lack of market support indicated by such a vast discount to the value of Carpet International'a assets is a reflection of the enormous problems faced by the British carpet industry. As the dominant force within the sector, the Crossley and Kosset carpet manufacturer must bear the brunt of its difficulties; low demand savage interest rates, the difficulties imposed by invoicing export customers in swollen sterling valnes, and its corollary of growing import penetration.

Carpets International probably has about a tenth of the domestic tufted carpets market and its position in a *fragmented* domestic industry is illustrated by the fact that it employs just under 6,300 people in this country out of a sector total of 28,000.

These numbers, however, have fallen by 10,000 in the last two years and the unions concerned foresee a great deal more contraction.

The Association of Scientific, Technical and Managerial Staffs is particularly concerned. Its carpet industry national advisory committee met during *the week at Whitehall College* and projected a further fall to 15,000 by 1984 against the Industry Training Board forecast of a drop to these levels only by the end of the decade.

Can Carpets International snrvive? The omens are not overwhelmingly favourable. Carpets Intarnetional cut its dividend last year as profits halved to £2.02m before tax. The application to the EEC Commission in February for restriction by quota on the import of tufted carpets containing man-made fibres fell on deaf ears and importers continue to land goods at prices as much as 20 per cent below those of equivalent UK mannfacturers, despite the existing 23 per cent tariff.

There are some bright points. The Australian company appears to have turned the corner after a depressing number of years in the red and the gronp bas finally commissioned its new Zimmer Chromotronic printing machine with which it expects to gain significant technical edge

Founded in 1956, Hong Kong Carpet Manufacturers appears immune to the worst of these problems. Aimed at the top end of the woollen rug market with a good export business in the U.S., the company is in any case backed by the stable of interests headed by one of Hong Kong's leeding hnsinessmen, Sir Lawrence Kaldoorie.

Reputedly one of the richest men in the colony, Sir Lawrence runs a range of operations which takes in banking, trade and textiles with China Power and Light Company at the apex. China Light took a 40 per cent stake in Peninsular Electric Power Company 16 years ago in a venture with Esso to prodnce electricity for distribntion. The venture prospered and expanded to the point where, in 1978, Sir Lawrence negotiated a £100m contract on behalf of the partnership with Babcock International and General Electric in what was then Britain's largest single power station export deal.

High quality woollen rugs, to say nothing of electricity distribntion in the colony, are a long way from the fading British carpet industry but Carjets International appears to know its major new sharebolders quite well.

Now both parties are reunited in an attempt to revive a dominant segment of the British tufted carpets market. Tbe odds look long but, as the City knows only too well, Hong Kong Carpet Manufacturers has not had to put too much money down to finance its bet.

Steel Corporation closures may be speeded, says MacGregor

MR. IAN MACGREGOR, chairman of the British Steel Corporation, yesterday warned that plans for steel closures may *have to be accelerated because* of the deteriorating economic climate.

"The storm clouds seem to be increasing rather than the reverse," he said before starting a fact-finding visit to the British Steel works at Port Talbot, *South Wales.*

Mr. MacGregor *said* the world economic problems bad deteriorated even further aince the original time-table bad been drawn up for slimming down the British steel industry.

"These problems are going *to increase* rather than *diminish* I would take the view that the problems are going to be much more intense than the plan copes with," be warned. Asked if the plans may have to be accelerated, Mr. MacGregor replied: "Oh, yes."

Mr. MacGregor, who has said he intends to be "an eight days a week chairman," spent his Bank Holiday Monday touring the Port Talbot plant after arriving from London with Sir Charles Villiers, the retiring BSC chairman. The two met local management officiels, hnt no formal talks were beld with union representatives.

Mr. MacGregor formally becomes chairman in July.

By the end of this year, 5,000 Port Talbot steel jobs will go, with further jobs being cut back over the next two years. Production there and at Llanwern, its sister plant near Newport, is to be balved.

Mr. MacGregor said he had still not had the opportunity to determine whether additional cuts needed to be made. He would be taking a firm decision "after I have ascertained the facts."

The health of British Steel depended oo its customers, each of whom had to face problems of maintaining their sbare of diminishing markets. British Steel Corporation needed to slim down to bring its workforce into line with foreign competition, he said.

Mr. MacGregor said the plans must be implemented as they were originally drawn up. He bas already visited the BSC plant at Scunthorpe end today tours Sbotton on Deeside, where heavy redundancies have already been made.

Asked if he would soon be meeting Mr. Bill Sirs, general secretary of the Iroo and Steel Trades Confederation, the main steel union, Mr. MacGregor said: "In due course—when it is appropriate."

More aid sought for Ulster fuel switch

BY OUR BELFAST CORRESPONDENT

THE GOVERNMENT has run into trouble over its level of assistance to Northern Ireland gas consumers who are being forced to switch to other fuels.

The province's fragmented gas industry, whicb relies on increasingly expensive naphtha as a raw material, is faced with virtual collapse following the Government's decision against piping natural gas from Scotland.

About 150,000 consumers could be affected by the gradual rundown of the industry.

The Northern Ireland Department of Commerce has proposed meeting half the conversion costs of domestic users and 30 per cent of the costs faced by industry and commerce.

The offer of compensation looks like being the first step in a long battle to secure the highest possible Governmeot aid.

instal a pipeline and it now

Belfast City Council—responsible for the largest gas operation in the province — is expected to press for a big increase in the assistance.

Mr. Victor Brennan, vice-chairman of the council gas committee, said: "The Government has managed to destroy the gas industry by refusing to install a pipeline and it now seems intent on virtually ignoring the consequences of its action."

Conversion costs would cause hardship to bouseholders, many of whom were pensioners, he said. The industrial consumer had been offered totally inadequate belp and the costs wbich industry was likely to incur might lead to further job losses.

The Government has said a pipeline across the northern Irish Sea, costing in the region of £100m, could not be justified.

The province's gas is supplied by 13 separate undertakings,

Recovery in engineering sales 'may prove short'

BY LISA WOOD

THE RECOVERY in sales achieved by the engineering industry at the end of 1979 after the national engineering dispute, may prove short-lived, according to the official magazine, British Business.

The pattern of aales and new orders bave been dominated over recent months by the effect of the dispute, which lasted from August to early October last year.

Sales were very depressed in the three months to October but in November aod December activity quickened substantially. However, the provisional seasonally-adjusted figure for Jannary this year suggests that the recovery may have been short-lived.

New orders also peaked in November hut declined thereafter and recorded a very depressed level last January. In the home market, higher sales in November and December were followed by a moderate decline in Jenuary, and the poor seansoally-adjusted figure for new orders is the lowest monthly level in that month for nearly four years. As a consequence, bome orders on band bave fallen.

Exports recovered sharply from the September low, reaching a peak in November, but since then the index has declined.

BL's new car programme aims to cut fuel costs

BY LORNE BARLING

AMBITIOUS Development work to combat rising fuel costs is being carried out by BL.

The work is being undertaken to keep abreast of foreign competitors despite the financiel burdens imposed on BL by its existing new car programme, notably the Mini Metro, due to be launched in the late summer.

The work is based maioly on the assumptions that fuel prices will increase two to three times in real terms by the middle to late 1980s, that petrol quality will deteriorate and that liquid petroleum gas (LPG) will be used more widely.

BL technology is trying to reduce average fuel consumption hy around 50 per cent by means of lightweight materials such as alloys and reinforced plastics, improved aerodynamics to reduce drag, and high efficiency small capacity engines.

The company bas spent upwards of £100,000 developing its Energy Conservation Vehicle (ECV) to prototype stage, which has achieved a performance of better than 60 miles per gallon at a steady 60 miles per hour.

BL sees this vehicle as one of its most important long-range projects, since its mid-range size and economy make it the natural family car for the late 1980s. A new version is to be completed by tho end of the year.

The company's investment in the project is extremely small compared to sums being spent on similar vehicles by Volkswagen and others.

BL discussed future funding with the Department of Industry and sounded out other UK car manufacturers on co-operation, hut has met with little enthusiasm.

The company believes it is ahead of competitors in reducing the car's weight while retaining stability and rigidity, but without further support development is likely to be slow.

Overall, BL's objective is to maintain research momentum on several fronts, and is now spending an additional £12m on turning its recently developed 700 acre vehicle proving ground at Gaydon, near Warwick, into a technology centre.

The site, previously a RAF V-bomber bese, was purchased in 1977. It has 29 miles of test track, an electro-hydraulic laboratory, hot and cold test rooms, and other facilities. Construction is about to begin on a climatic wind tunnel costing up to £5m.

This will save the considerable cost of sending cars abroad for long periods of test in hot and cold counaries.

Another £5m is expected to be approved soon for engine testing facilities there, eventually providing a comprehensive research and test centre for all of the BL car divisions. Around 200 people now work at the centre, but this figure will rise to 600 eventually.

Although BL's research covers a wide area, including transmission design, body styling and new fastening techniques, such as bonding, it is engine performance which matters most in the efforts to save fuel.

This work is moving towards leaner mixtures of fuel. Higher compression ratios and the constant optimisation of air/fuel ratios through electronic controls have proved encouraging.

Work is also taking place, in conjunction with Lucas and Warwick University, using micro-processors to cut out four cylinders oo a Rover V8 engine when maximum capacity is unnecessary.

Another project, using a concept first proposed by Sir Alec Issigonis, designer of the Mini, covers the use of single and two-speed gearboxes. With fairly large capacity engines and torque converters these are suitable for lightweight cars and could be a major cost saving.

The company has also produced a prototype gearbox, known as the BL Perbury transmission, which ensures the engine runs at or near its ideal performance and, by offering an overdrive ratio twice as high as normal top gears, field tests are confirming that a 15 per cent overall improvemeot in fuel economy is obtainable.

Experimental work eimed at reducing normally high fuel consumption during engine warm up, is being carried out on direct injection diesel engines.

Mr. Spen King, deputy chairman of BL Technology, said he believed there would be far wider use of LPG in cars in future, due to increasing sales of gas from the Middle East to industrial couotries.

Mr. King also foresaw wider use of robotics within BL for doing repetitive unattractive jobs such as spraying on body underseal.

However, BL's engineers are painfully aware that competing companies in Europe and the U.S. have funds to develop their ideas, while the position at BL is uncertain.

INDONESIA'S ASEAN PROJECT GETS UNDERWAY

Japanese set to win £131m contract

BY RICHARD COWPER IN JAKARTA

A JAPANESE company is set to win the contract to build the long-awaited ASEAN (Association of South East Asian Nations) fertiliser plant in north Sumatra. The plant is expected to cost over $300m (£131m).

The contract to build the 570,000 tonne a year urea plant in Aceh will almost certainly go to one of three Japanese companes which are the only companies to have passed the pre-qualification tender stage. According to Mr. I. R. Hartato, Indonesia's director general of chemicals, the selections of the general contractor will be made in late July or early August. The Japanese companies vying for the deal are Toyo Engineering, Chiyoda Chemical Engineering and Kobe Steel.

Financing for the project will come largely from Japan which has agreed to provide 70 per cent of the costt hrough a mix of export credits and a loan. The rest will come in the form of equity. The Indonesian Government—through the state-owned fertiliser company, P. T. Pusri—will hold 60 per cent of the equity while the rest will be divided between the remaining four ASEAN countries. Singapore's decision to participate with only e nominal share of 1 per cent leaves Malaysia, Thailand and the Philippines to take 13 per cent each.

According to Mr. Hartato construction work should start soon after the contract is ewarded and the plant is expected to be in commercial production at the end of 1983—some seven years after the project was originally proposed.

Along with cement, fertiliser has proved to be one of the few undoubted successes of Indonesian industry. From being a major importer of fertiliser in 1972, when the country was producing only 147,000 tonnes a year, production grew steadily to 446,000 tonnes in 1976. Since then with a number of new plants coming on stream production has grown sharply from 913,000 tonnes in 1977 to 2.1m tonnes last year when Indonesia became a net exporter of nitrogen fertiliser. Last year Indonesia exported 200,000 tonnes of urea but this year, largely due to increasing domestic demand, this will drop to around 140,000 tonnes. Though the country soon plans to expand its phosphate and compound fertiliser production Indonesia will for eome time remain e net importer

Indonesie's abundant local reserves of natural gas makes it an ideal location fer the production of fertiliser, while the fact that over 70 per cent of the country's population still gain a living from the land, means an ever increasing domestic demand. Local consumption grew by 10 per cent a year for much of the 1970s and this year, according to Mr. Hartato is likely to rise te 15 per cent. Urea, which accounts for nearly two-thirds of the fertiliser applied in Indonesia, is principally used on rice—the nation's staple food, while estate crops like tea, coffee, sugar and rubber use about 15 per cent of all fertiliser applied.

UK goes ahead with exhibition in Seoul

By Charles Smith in Seoul

A MAJOR British industrial exhibition focusing on scientific instruments and teaching equipment opened its doors in Seoul yesterday, in apparent disregard of the political problems facing the country.

The exhibition includes participants from 28 companies ranging from small specialist concerns to major names such as Pye, Racal and Rank Taylor Hobson. Its object is to secure a share of some $400m worth of orders for scientific teaching equipment, expected to be placed by the Korean Ministry of Educatien over the next four years.

S. Korea announced a major programme for updating the standards of scientific education at university level and secured a $100m loan for the purpose from the World Bank late in 1979. The UK hopes to win contracts under the World Bank scheme but plans are also under way to establish a line of credit available only for purchases of British equipment. This could be equal in valne to the World Bank loan.

The UK exhibition is sponsored by two industry associations, the Scientific Instrument Manufacturers Association (SIMA) and the Industrial Council for Educational and Training Technologies (ICETT).

The plan was reviewed as a matter of urgency at the beginning of last week when martial law was imposed throughout South Korea and the universities closed. It was decided to go ahead with the project in part because irrecoverable investments had already been made and in part as a gesture of confidenee.

Parkinson ur... Zimbabwe fo... investment c...

BY TONY HAWKINS IN SALISBURY

THE British Trade Minister, Mr. Cecil Parkinson, left Zimbabwe at the week-end having promised to urge British investors to participate in Zimbabwean development and UK tobecco manufacturers to purchase Zimbabwe virginie leaf.

After spending three days in Zimbabwe meeting Government Ministers, officials and leading representetives of the private sector, Mr. Parkinson urged the Government to establish a "code of conduct" for foreign investors which he believes is necessary to etimulate privete sector investment in Zimbabwe. Businessmen in Salisbury are not optimistic about the likely level of privete sector investment in the immediate future believing that foreign investors will be reluctant to commit funds to Zimbabwe until they see the policy stance adopted by Mr. Mugabe's new Government.

A rash of public statements by Zimbabwean Ministers over the lest few days have heightened business end economic uncertainty. Finance Minister, Mr. Enos Nkala, was quoted in ... warning that s... of emigration ... be necessary ... power Planning ... Edgar Tekere, ... speech a "freeze ... expetriete manpow... become necessary while ... established whether ... not there were ... Zimbabweans able to f... being offered to expatri...

In the same speech ... Tekere warned th... Government would not ... to ransom by the L... House egreement which ... safeguards te racial mi... He called on "those ... multinationals" operat... Zimbebwe to shed "... percentege of their e... profits in the interests ... country." In the light ... remarks, businessme... that Mr. Parkinson's ... code for foreign i... timely.

Mr. Parkinson ... groups are inter... Zimbabwean c... those for rail... and expan... airport.

World Economic In...

RETAIL PRICE...

	Apr. '80	Mar. '80	Feb. '80
U.K.	260.8	252.2	[illegible]
U.S.	242.5	239.8	[illegible]
Italy	180.0	177.2	[illegible]
W. Germany	115.6	114.9	[illegible]
	Mar. '80	Feb. '80	Jan.
Holland	131.4	130.3	[illegible]
Belgium	140.0	139.7	[illegible]
France	242.1	239.3	[illegible]
	Feb. '80	Jan. '80	De...
Japan	132.8	131.6	[illegible]

UDT in Dutch Export finance joint venture

By Our Amsterdam Correspondent

UNITED DOMINIONS TRUST, the British Finance House, and Royal Nedlloyd, the Dutch shipping and transport company, have set up a joint venture to provide export financing in the Netherlands.

Tradeline Finance, with offices in Amsterdam and London and initial capital of Fl1m (£217,000), will offer a "more flexible and more comprehensible form of financing than currently available," said Mr. Bob Beresford, managing director of UDT International Finance.

UDT ultimately also plans to offer similar fecilities in Denmerk and Spain through subsidiary companies in Copenhagen and Madrid.

Tradeline Finance offers the exporter cash payment on shipment and coverage of the entire debt risk, allowing companies to improve their liquidity and balance sheet ratios. The importer is given extended credit so that he can negotiate with the exporter on a cash basis and choose the currency in which he finances his order.

China postpones harbour project

BY CHARLES BATCHELOR IN AMSTERDAM

A DUTCH consortium of contracters and engineering companies has given up hopes of undertaking a $1bn (£438m) harbour construction project in China in the foreseeable future. Work on building e coal terminal at the port of Lien Yung Gang has now been put off and is likely to be carried out largely by the Chinese themselves, the Port and Delta consortium said here.

The Dutch companies have been negotiating for the project with the Chinese for the past two years. They had also hoped in the longer term to gain another major order to deepen the Yangtse Kiang river.

Port end Delta is a joint venture of the contractos Bos-Kalis Westminster, Hollandsche Beton Groep and Volker Stevin. The IHC Holland shipyard would heve supplied dredging equipment while the engineering consultants Nedeco were to have carried out the design work. Amsterdam-Rotterdam Benk had been commissioned to form an international banking consortium to lend Fl 2bn (£442m) to China for the project.

The Chinese have not told the contortium that the project has beene definitely cancelled, a Bos Kalis spokesman said, and the company is still hopeful that it will be carried out at some time.

Port and Delta commented that the postponement of the project confirms that China bas now clearly decided to slow down the rate at which it modernises its industry and infrastructure, partly because of the financing problems.

The companies first announced in October 1978 that they hoped to sign a contract for the work "shortly" though the following March it emerged that the Chinese wanted to play a greater part themselves. Last June a senior Chinese official visiting the Netherlands hinted at delays in carrying out the work.

Port and Delta is now discussing possible compensation from the Dutch Economic Ministry for the Fl 6m (£1.33m) worth of costs incurred in preparing tenders. Although there are no prospects of any other orders the consortium will not be wound up.

Our Correspondent writes from Georgetown, Guyana: Two Dutch companies, Ballast Nedam and Lareco have been jointly awarded a Guyana $104m (£18m) contract for a large drainage and irrigation scheme bere.

The Guyanan Government announced that they were selected from 12 international contracting companies, and submitted the lowest bid.

The work will be carried out over three years at the Mahaica - Mahaicony - Abary scheme which is being funded by the Inter-American Development Bank and the Guyane Government. When completed, the scheme will provide flood control for some 146,000 acres

The project involves e 32-mile main irrigation canal, secondary canals, a 22-mile facade canal, collector drainage trenches, and pump station, a 5,000-foot spill weir, and 11 miles of all-weather roads.

Consultants for the project are Sir William Halcrow and Partners.

هكذا من الاعلام

'Name starvation wage companies,' MP tells Nott

BY PHILIP RAWSTORNE

MR. JOHN NOTT, Trade Secretary, will face determined pressure from Labour MPs in the Commons next week to publish the names of 33 British companies operating in Sonth Africa who are paying black workers less than subsistence wages.

Mr. Michael Meacher, a former Labour trade minister, claimed yesterday that the Government's decision to withbold the names was encouraging breaches of codes of conduct on employment conditions in South Africa drawn up by both the EEC and by a Commons all-party salect committee.

In the past three years, the number of British companies paying starvation wages to black workers had increased fivefold, he said.

About 2,000 workers were now involved, compared with about 700 in 1977.

About 50 British companies were paying wages below the minimum level recommended by the EEC code to more than 20,000 employees.

Mr. Meacher said that virtually no progress bad been made by many Britisb companies on other recommendations of the Commons committee concerning African trade union rights and discrimination.

"It is incredible in sucb a situation that tha Government should decide not to publicise the firms involved. The wbole purpose of the exercise was to use the force of publicity to improve conditions for black workers in British-owned companies."

Mr. Meacher has tabled Commons questions to Mr. Nott, demanding the names of the 50 companies paying wages below the EEC-recommended level and the 33 companies paying less than subsistence wages.

He will also question the Government about action taken against 17 companies who failed to provide it with information about their pay and conditions for black workers.

Mr. William Rodgers, Labour MP for Stockton and chairman of the Commons committee which drew up the code of conduct, said he would press the Government about its apparent defiance of the all-party recommendations.

The Commons committee had said it was vital that companies should expect continuing publicity and the decision to keep them out of the spotlight was deplorable.

In spite of the Labour protests, Mr. Nott is said to adhere strongly to his view that private pressure on companies is likely to bring more rapid improvements than further publicity.

A Department of Trade spokesman claimed yesterday that the Government already published more information than most of its EEC partners.

Although the Government had decided not to name the companies which the Department's analysis suggested still failed to meet minimum standards, it was pointed out that any member of the public could inspect individual company reports submitted to the Department on their employment conditions.

EEC gives £1m for canal development

BY LYNTON McLAIN

BRITAIN'S FIRST major canal development for half a century, the Sbeffield and South Yorkshire Navigation, bas received a grant of more than £1m from the EEC, for civil engineering work to be carried out this year.

This is the second time the EEC's European Regional Development Fund has provided aid for tbe scheme. In March, the fund gave the owners, the British Waterways Board, a grant of £242,000.

The improvements in the Sheffield and South Yorkshire Navigation canal were given the go-ahead by the former Labour Government in September 1978 as a £10m scbeme spread over six years. Most of thc money is coming from the National Loans Fund, but £1m is to be granted by Sonth Yorkshire County Council.

The project, to be completed by about 1984, will give a tbrough-ronte for barges of up to 400 tonnes from Goole on tbe east coast to Rotherbam. At present, barge traffic is limited to 90 tonne capacity vessels upstream of Doncaster.

Barges of up to 700 tonnes capacity will be able to travel aa far as Mexborougb when the canal development is completed.

Most of the work involves civil engineering, but a completely new canal lock is being built at Sprotborongb Lock, South Yorkshire. This, with other developments in locks on the canal, will help rednce by one and a half days the journey from Goole to Rotherham.

Complete barge convoys will be able to move through the locks without the need for separate handling. This will also reduce fuel consumption and labour requirements.

The state-owned British Waterways Board is basing much of its case for the future development of Britain's canals on the Sheffield and South Yorkshire Navigation.

The Board is expecting to carry 2m tonnes of bulk and general freight on the canal wben the development is finished, compared with last year's total of 330,000 tonnes.

Most of the shipments are bulk coking coal. But the Board is anxious to develop general goods traffic.

Go back to grass roots, urges Co-op president

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

THE FUTURE of the co-operative movement as a major High Street retailer depended on a return to the movement's traditional grass roots ideas and philosopby, the new president of the Co-op Congress said in the Isle of Man yesterday.

Mr. Harry Bailey told delegates that be believed the movement bad "lost its face, idealism, and compassion, and forgotten its purpose."

He said that with "probably the worst Right wing Government this country bas seen in this century," it was up to the Co-op movement to improve the standard and quality of life for people at a local level.

His speech highlighted the Co-op's present dilemma—wbether it sbonld merge the present independent retail societies with the Wholesale Society to form a new national Co-op to stem the trading decline.

This proposal to form "Co-op GB" will be debated at the Congress today.

Mr. Bailey warned delegates that the Co-ops' trading position in the 1980s would continue to be difficult.

He added: "Unless we unite in the battle, I fear that early next century, or possibly before, the Co-operative movement will be merely a page in the history books."

Heavier lorries 'threaten bridge structures'

HEAVIER LORRIES would have an "extremely serious" effect on road bridges in Britain, the Transport Department has said in evidence to the Armitage inquiry into lorries and the environment, writes Lynton McLain.

The European Commission wants to raise the maximum permitted weight of laden lorries to a uniform 44 tonnes gross in all member States.

The current maximum limit in Britain is 32.5 tonnes, and nnless steps were taken to safeguard Britisb bridges, the consequences would be "costly," the Government says in its evidence. Repeated overloading nf bridges would speed up the deterioration of bridge structures, it says.

The heavier axle loads which would be permitted under the European Commission draft directive COM (78) 728, published in January 1979, could too have an adverse effect on underground structures such as "culverts, subways, sewers and electricity sub-stations built under roads."

The Armitage inquiry is expected to finish its report later this summer.

Meanwbile the Transport Department bas appointed the consulting engineers Husband and Company to assess the work that would need to be done by local authorities to Britain's 65,000 brick and masonry arch bridges, and 35,000 metal bridges to safeguard structures in the event of Armitage recommending a rise in the maximum permitted lorry weights.

Merchant shipping fleet decline almost ended

BY WILLIAM HALL, SHIPPING CORRESPONDENT

THE UK merchant shipping fleet fell by 6.2m dead weight tons in 1979—its sharpest drop since the Second World War. However, the General Council of British Shipping (GCBS) believes that the sharp decline in the UK fleet has almost ended.

In the past four years, the UK shipping fleet has fallen by 14.5m dwt to 36.6m dwt, mostly because of the serious recession in world shipping. The GCBS 1979/1980 report says that the decline is "bottoming out" and that the fleet has actually increased

It empbasises that the changing size and sbape of the UK and NATO shipping fleets has important defence implications. It warns against relying on the shipping fleets of "unfriendly countries" (an obvious reference to the Soviet Union) which may erode the medium-term availability of the UK merchant fleet.

British shipping companies bave started to order ships once again and the GCBS notes that, at the beginning of this year, UK shipping companies had 1.8m dwt of new ships ordered, of which 0.7m dwt was ordered in the UK.

But the GCBS argues that if the UK merchant shipping fleet is not to decline further more ships should be ordered.

It is seeking reintroduction of the investment allowance scheme which last operated between 1954 and 1966.

It says that owners' financial resources have been seriously depleted by many years of recession.

One of the last maritime entrepreneurs

WILLIAM HALL reviews the background of Adrian Swire, British shipping's new leader.

ADRIAN SWIRE, wbo takes over as president of the General Council of British Sbipping tomorrow, is ona of the last maritime entrepreneurs left in tha UK.

Although he is not in the same league as Hong Kong's Sir Y. K. Pao or C. Y. Tung, wbo between them control well over 30m dwt of shipping, the family company of John Swire and Sons, is a household name in the Far East even if relatively unknown in the UK.

The first John Swire was a Liverpudlian textile merchant wbo went to China in 1866 to seek his fortune, and set up the Far Eastern trading house of Butterfield and Swire in Shangbai. A few years later he extended bis Chinese interest by establishing the China Navigation Company to provide shipping services up the Yangtze river and along the Chinese coast. Very soon China Navigation overshadowed Swire's other Far Eastern trading interests.

However, the Second World War intarvened and a large part of the family fortune was lost. More than balf of Swire's shipping fleet was sunk and the family's Hong Kong dockyard and sugar refinery were left in ruins. The group's Chinese river and coastal trades disappeared, as did its extensive property interests in China which inclnded a Tientsin lighterage company and a Sbanghai paint works.

Over the last 30 years the family fortunes have been revived. In the 1970s the majority of the Swire Group's Hong Kong interests (its most important asset), were transferred to Swire Pacific, one of the biggest and most respected "Hongs," or trading bouses, in the colony. It is publicly quoted with a market capitalisation of £220m and substantial interests in everything from property and botels to Cathay Pacific Airways.

However, while rival trading houses such as Jardine Matheson and Wheelock Marden are now very firmly based in Hong Kong, John Swire and Sons Ltd., which owns around a third of Swire Pacific, remains very much a British family firm.

John Swire, the chairman, and brother Adrian, the deputy chairman, are the fifth generation of the family. They were both educated at Eton and University College, Oxford. They run their overseas empire from a shabby office block in the City of London.

Despite the fact that the Britisb sbipping industry's pleas for special treatment went unheeded in tbe last Budget, Mr. Swire firmly believes that under the present Government a climate in whicb shipping entrepreneurs can flourish is being created.

Certainly, the industry could do with a few entrepreneurs to revive its flagging fortunes. Britain still has the fourth biggest shipping fleet in the world, but only just. Over the last four years its size has tumbled from 50m dwt to 36½m dwt.

Like every president of the General Council, Adrian Swire sees one of bis main duties as beating the drum in high places about the contribution of the UK shipping industry

In August be will lead a council mission to Cbina to discuss terms of trade, allocation of cargoes, opportunities for shipping, and possible joint venues. It will also sound out about establishing a UK-China maritime agreement.

However, Mr. Swire's appointment to the presidency of the General Council also underlines the sligbtly mysterions relationship between the UK and Hong Kong shipping fraternities. Traditionally, Swire bas built most of its ships in Britain and registered them under the UK flag.

By contrast the major Hong Kong shipowners, Sir Y. K. Pao, C. Y. Tung and Frank Chao, bave built most of their sbips in foreign yards and registered them under flags of convenience.

Over the last decade the Hong Kong controlled sbipping fleet has mushroomed, and according to Sir Y. K. Pao now totals 45m dwt, more than a fifth bigger than the UK fleet.

The Tung group bas taken over Furness Witby, and Sir Y. K. Pao and Frank Chao could easily afford P & O and Ocean Transport.

Fresh sign of market depression

THE NEWS that Gotaas Larsen had laid up two of its Very Large Crude Carriers (balf its VLCC fleet) is fresh evidence of the depression in the supertanker market, writes William Hall.

More shipowners are likely to follow Gotaas Larsen and lay up their ships. A few have been attempting to deploy their Very Large Crude Carriers as storage ships but earnings are very poor.

Shipbrokers John I. Jacobs report that a 280,000 tonner was fixed for short term storage recently at $8,500 per day while a 92,000 tonner was fixed for storage at $17,500 per day.

With oil prices continuing to rise there appears to be an increasing demand for oil tankers for storage.

Davies and Newman says 5.9m dwt of privately-owned tankers were being used for storage purposes at the beginning of May compared with 5.4m dwt laid up.

Among smaller tankers the position is healthier wbich is reflected in the heavy ordering of tankers of between 60,000 dwt and 80,000 dwt.

However, with the latest phase of the deepening of the Suez Canal to be completed by October, tanker operators are starting to look for slightly larger tonnage.

APPOINTMENTS

UK NEWS

NATIONAL INSTITUTE REVIEW

Britain faces longer road to recovery

BY ANTHONY HARRIS

THE WORLD recession which is now imminent will be "neither protracted nor severe," according to the quarterly forecast from the National Institute for Economic and Social Research.

However, this relatively optimistic forecast for output, compared with other forecasts, implies high figures for inflation, and large balance of payments deficits, especially in West Germany and Japan. In the UK an unprecedented squeeze on profit margins outside the oil industry is expected to impede recovery for some years.

The National Institute Review describes the coming recession as a "period of adjustment" in which to correct trends in the early months of this year, when production ran ahead of demand and spending outpaced incomes.

In the U.S., where the adjustment is already seen as underway, the Review believes that the downturn should be over before the end of the year if monetary policy is relaxed. The report was written before the announcements of easier credit by the Federal Reserve Board last week. For the year as a whole, output is expected to fall by 1 per cent, followed by a rise of 2.5 per cent next year.

For Western Europe, apart from the UK, the worst of the slowdown will be deferred until 1981, but even in that year some growth is forecast in all OECD countries except Italy. For the main industrial countries as a group, the growth of industrial output is forecast to fall from 5.1 per cent in 1979 to 1.7 per cent this year and 2.6 per cent next year.

While the weakening labour market is already thought to have checked the pace of wage increases in some OECD countries, wholesale and retail prices accelerated. The analysis suggests that over half the four per cent rise in consumer prices in the OECD countries in the first quarter was directly attributable to energy prices. Some other primary costs and public charges also increased.

"The effects of all these factors should moderate as the year passes," says the review, "but we now expect the total increase in consumer prices in the OECD area to be about 13 per cent this year, though by 1981 it may be back to the 1979 rate of rather less than 10 per cent."

For individual countries the inflation forecasts for this year range from five per cent in West Germany and 8.5 per cent in Japan to 12.8 per cent in France, 14 per cent in the U.S., 18.5 per cent in the UK, and 20 per cent in Italy.

Next year the figures are expected to fall to 4 per cent in West Germany, 5.5 per cent in Japan, 10 per cent in the U.S. and France, 15.5 per cent in the UK, and 17.5 per cent in Italy.

Although commodity prices are now soft, and are unlikely to become firm until the second half of 1981, it is thought that for 1980 as a whole the level will be 12 per cent higher than last year, because of the very high levels achieved in the speculative boom in the early weeks of the year.

Next year the rise is seen as much lower. It is assumed, on the other hand, that oil prices, after rising by 60 per cent in 1980, will be pushed up by a further 20 per cent next year.

These assumptions are the main determinants of the forecast balance of payments. The OPEC current account surplus is put at $140bn in 1980 and perhaps $170bn in 1981, both figures well in excess of most other recent forecasts.

Since the Communist countries are expected to be in surplus as well, and the U.S. and the UK near balance, some 60 per cent of the counterpart deficits of $150bn for 1980 and $190bn for 1981 are seen as falling on a relatively narrow group of countries—West Germany, Japan and the smaller OECD countries.

The developing oil importers are also forecast to incur very large deficits, totalling some $60bn this year and $80bn next year.

The review points out that although slower growth and inflation might be expected to lead to a cycle of lower interest rates, this development may be held back by other factors. The main deficit countries have been pushing up their rates in an effort to attract capital flows to finance their deficits, and to resist any fall in their exchange rates.

"Any downward movement is likely to be hesitant and slow for at least as long as inflation is considered more important than any loss of income and output," the review comments.

The institute is relatively optimistic about the growth of world trade, despite the forecast recession and some signs of protectionism. While import demand will be sluggish in the developed countries, and at a standstill in Iran, the institute expects very sharp increases in imports by the oil producers—by 20 per cent in volume in 1980, and 15 per cent in 1981. A further sharp increase in imports is also foreseen in the fast-growing non-oil developing countries of East Asia and the Middle East.

As a result, world trade in manufactures is expected to grow by 5¼ per cent this year—somewhat faster than in 1979—and by 4¼ per cent next year.

The institute's forecast for the UK is dominated by the virtual collapse expected in the trading profits of industrial and commercial companies, apart from the oil companies. The combined effects of sustained wage pressure and a high exchange rate are expected to reduce gross profits from an average of nearly £15bn in the last three years to £4.5bn in 1980 and £2.5bn in 1981. When inflation is taken into account, this average is less than a quarter of the previous cyclical low in 1974-75.

Although the forecast financial deficit of these companies is not thought likely to deteriorate so dramatically, due to sharply reduced stockbuilding, a cut in capital investment, and the growth of equipment leasing, their borrowing is put at £10-11bn for both this year and next—both figures near the crisis peak of 1974 in real terms.

The review says that these financial pressures on companies "might not be sustainable," and draws attention to the fact that the distortions which have built up in the UK economy are now cumulatively so great that the behavioural models on which its forecasts are based must have become questionable.

It therefore considers two possibilities reflecting some possible change in economic management — either a fall in the exchange rate, or a break in the previous success of the trade unions in keeping wages rising broadly in line with consumer prices.

It concludes that while a change in the exchange rate would have little lasting effect on real activity, a change in wage behaviour would improve profitability and lower inflation immediately while real incomes could be protected by fiscal expansion.

However, the review concludes that such a change is unlikely to be produced by monetary restraint, or by the resultant rise in unemployment or the pressures on company liquidity. Only a reform of wage bargaining would achieve the necessary result.

BALANCE OF PAYMENTS ON CURRENT ACCOUNT OF OECD COUNTRIES
$bn

	1979	1980*	1981*
United States	−0.32	−1	−4
Canada	−4.29	−7	−9
Japan	−8.64	−29	−38
France	+1.46	−2	−2
W. Germany	−5.83	−24	−29
Italy	+5.20	+3	+3
UK	−5.08	−6	−3
Total above countries	−17.50	−66	−82
Other OECD	−20.60	−25	−26
Total OECD	−38.10	−91	−108

* Estimated.

UK OUTLOOK

	Real GDP (% change, year/year, 1975 prices)	Real personal disposable income (% change, year/year)	Unemployment (4th quarter, million)†	Money supply (% change in sterling M3, fiscal years)	Consumer prices (% change, year/year)	Current account balance (year, £bn)	Public sector borrowing requirement (fiscal year, £bn)
1978	3.0	6.6	1.28	11.4	8.6	0.9	9.3
1979	1.7	6.0	1.23	10	12.0	−2.4	9.1
1980*	−1.1	2.1	1.60	9	17.2	−2.6	7.9
1981*	0.6	1.2	1.96	8	14.9	−1.3	8.0

† Great Britain, wholly unemployed, excluding school-leavers. * Forecast.

Science goes to the aid of industrial materials

BY DAVID FISHLOCK, SCIENCE EDITOR

SCIENCE and technology have been highly successful in preventing serious shortages in industrial material.

Despite the growing population, shortages have failed to materialise because of new materials or new ways of processing existing materials.

The price includes greater use of energy, or use of fuel as feedstock for replacement materials.

These are the conclusions of a report from the National Institute of Economic and Social Research on the supply of industrial materials.

It finds, from a study of about three dozen new materials, "basis for the hope that progress will overcome possibly emerging scarcities."

The paper, by Mr. G. F. Ray, acknowledges the pessimism of forecasts such as Limits to Growth, a decade ago. The work of these forecasters, although criticised "has the merit of alerting the public to resources problems (preceding OPEC who did the same thing in a different manner a couple of years later.")

The pessimists generated a debate in which there were some who advocated stopping economic growth and "have no further confidence in continuous future technological development."

On the other side were "a good number of scholarly studies taking the opposite view and emphasising the importance of technological progress."

In some cases technological progress had accounted for half or more of past increases in output per head in industrialised countries, says Mr. Ray.

New materials examined in the report include the use of glass fibre for communications. In the next two decades it may be economic to recover copper used for telecommunications and replace it with optical glass fibre made from sand.

Mr. Ray cites Germany's success in the Second World War at substituting scarce materials. Germany ended the war with larger stocks of copper, tin, manganese and nickel than it held in 1939. It had cut the amount of copper needed by a submarine from 56 to 26 tons, and in a locomotive from 2,300 kilogrammes to 237 kilogrammes.

The concept of reserves of a material is a dynamic one, says Mr. Ray. As reserves are exploited new areas are explored, new deposits found and added to reserves.

With the sole exception of tungsten, world reserves of minerals and metals in 1976 were higher—sometimes many times higher—than in 1950, despite the high rate of exploitation of the previous 25 years.

Mr. Ray says: "No one has yet found it necessary to know the absolute limit of resources; producers of minerals are satisfied if their known reserves cover the next ten or twenty years' requirements. No one has been motivated to invest in exploration for additional reserves which may not come into production before the next generation."

Bus fares up in Eastern counties

BUS FARES throughout East Anglia went up by between 9 and 23 per cent at the weekend. The increase, which will put an extra 25p on some journeys, the second introduced this year by the Eastern Counties Bus Company who say the extra revenue is needed to meet inflation and the rising cost of fuel.

Public Works Loan Board rates

Effective from May 17

Years	Quota loans repaid by EIP†	Quota loans repaid A‡	Quota loans repaid at maturity§	Non-quota loans A* repaid by EIP†	Non-quota loans A* repaid A‡	Non-quota loans A* repaid at maturity§
Up to 5	14⅞	14¾	14⅝	15⅛	15¼	14⅞
Over 5, up to 10	14⅞	14⅞	14⅝	14⅞	14⅞	14⅞
Over 10, up to 15	14⅞	14⅞	14¾	14⅞	14¾	14⅞
Over 15, up to 25	14¾	14¾	14¾	14⅞	14⅞	14⅞
Over 25	14¾	14¾	14¾	14¾	14⅞	14¾

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payment of interest only.

FT GROCERY PRICES INDEX

Surprise jump in May brings 2.3% increase

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

THE Financial Times Grocery Prices Index rose sharply in May due to higher prices for meat, fresh fruit and vegetables, and bread.

The May index rose by 2.3 per cent to reach 128.79 — the highest monthly increase for almost a year.

The sharp rise was a surprise but the impact of the recent fine spell has clearly not yet been felt in the shops.

The fresh fruit and vegetable section of the basket, therefore, increased from £275.73 to £291.70.

The FT Grocery Prices Index, which shows the trend in food prices rather than acting as an absolute indicator, is based on data collected each month by 25 shoppers who monitor the same list of 100 items in the same shops.

The 2½p per loaf implemented by the big bakers earlier this month led to the bread, flour and cereals section of the basket rising from £279.97 to £292.85.

Cereals were generally dearer in the shops monitored, as were most biscuits and cakes.

Meat also cost more, mainly due to an increase in the price of beef and lamb. This section cost £540.78 this month, compared with £524.58 last month.

The J. Sainsbury supermarket chain is holding a special British Bacon promotion over the next four weeks.

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FINANCIAL TIMES SHOPPING BASKET

MAY, 1980

	May	April
Dairy produce	625.47	621.72
Sugar, tea, coffee, soft drinks	194.68	194.82
Bread, flour and cereals	292.85	279.97
Preserves and dry groceries	102.35	100.11
Sauces and pickles	48.72	48.23
Canned goods	187.28	185.57
Frozen foods	224.36	221.95
Meat, bacon, etc. (fresh)	540.78	524.58
Fruit and vegetables	291.70	275.73
Non-foods	230.16	224.98
Total	2,738.35	2,677.66

Index for May: 128.79

1979: January 108.54; February 108.65; March 109.12; April 110.88; May 113.59; June 116.02; July 114.79; August 114.16; September 114.17; October 114.95; November 116.36; December 118.74.

1980: January 120.47; February 122.32; March 124.18; April 125.94; May 128.79.

Health union chiefs plan firm pay stand

BY PAULINE CLARK, LABOUR STAFF

HEALTH SERVICE union leaders plan a firm stand against any Government attempt to impose a 14 per cent pay settlement in the face of the recent 31.4 per cent award to doctors.

A row over pay affecting two hospital employees' groups—the 420,000 nurses and the 50,000 administrative and clerical staff—is said by unions to be unavoidable in the weeks ahead.

Nurses' union leaders will resume pay negotiations today with a demand for a pay rise of at least 18 per cent. This is in line with the inflation award recently made to doctors on top of their 10 per cent "catch up" increase.

The National Union of Public Employees said that normally hospital administrative and clerical staff had their wages determined by linkage with Civil Service pay awards.

In spite of wage increases of up to 22 per cent for comparable Civil Service grades, however, union leaders representing the group had been warned that this year cash limits must take precedence.

Mr. Patrick Jenkin, Social Services Secretary, last week made it clear that the 14 per cent cash limits would continue to apply to health service workers who had not yet completed pay negotiations.

To the nurses, whose annual settlement is now nearly two months overdue, he said that pay awards to doctors and nurses in the last two years had been almost identical.

He said the Government view was that both were in the second year of a "catching up" period.

After the nurses' 19.6 per cent average award from the Clegg Commission, both groups are viewed by the Government as having had virtually the same increases between April 1978 and April 1980.

Nurses unions who in previous negotiations have implied acceptance of a 14 per cent increase—although agreement has not been reached on distribution—have warned since the doctors' award that they may now back a bigger claim with industrial action.

The Royal College of Nursing, normally the most moderate of the nurses' unions, voted overwhelmingly at its conference last week to ballot 165,000 members on whether its constitution should be changed to allow industrial action.

Tough line on lunch supervision

BRITAIN'S biggest head teacher union yesterday pledged full backing for heads who decide to shut their schools during the midday break if they think the period cannot be properly supervised.

The 21,000-strong National Association of Head Teachers approved a national council policy statement aimed at tackling lunch-time problems.

More and more classroom teachers have decided to opt out of voluntary midday supervision, and Government legislation on school meals, which is creating a growing army of "sandwich children," has made matters worse.

● ROBB CALEDON: Union opposition to the rundown of Dundee's Robb Caledon Shipyard is crumbling. Nearly 250 workers have called for voluntary redundancy. Around 200 men have already left the British Shipbuilders yard, where employment is to be reduced from 950 earlier this year to 350 by mid-summer.

● AIRPORT SHUT: Thousands of holidaymakers arrived at Luton Airport yesterday to find it closed—35 flights had to be transferred. All flights stopped when only four of the airport's fire crew turned up for duty.

The airport's manual workers are working to rule in support of a national wage claim.

● The National Graphical Association said yesterday that interim agreements on its demand for an £80 minimum earnings level for provincial members in the general printing industry were "virtually tied up."

Journalists to join print merger talks

BY OUR LABOUR STAFF

JOURNALISTS' union leaders have agreed to start merger talks with two leading printing unions.

The 30,000-strong National Union of Journalists has asked the Society of Graphical and Allied Trades and the National Graphical Association to fix a tripartite meeting for the first informal exploratory talks on a possible amalgamation.

Both the printing unions, who respectively claim memberships of 203,000 and 108,000, are also involved in discussions on an amalgamation which could lead to mergers among all four major printing unions.

Efforts to step up plans for a powerful broad-based union throughout the industry, which it is hoped could more effectively meet the challenge of new technology, follow a recent initiative by Mr. Len Murray, general secretary of the TUC.

Merger proposals, including those involving the NUJ, have been discussed for some time, although there have been some setbacks — as in the case of last year's rejection by members of SLADE, the artists' and process workers' union, of talks with the NGA.

Mr. Bill Keys, general secretary of SOGAT, said yesterday that in the face of so much activity it had yet to be decided whether to run talks in parallel.

His union's executive was to discuss tomorrow a letter from the National Society of Operative Printers, Graphical and Media Personnel seeking merger talks with SOGAT.

Mr. Keys said his union was also actively involved in merger talks with the NGA, the print craftsmen's union.

Recent disagreement between SOGAT and the NGA over the pay dispute in the provincial newspaper and general printing industry, he said, served only to underline the need for a united voice among printing unions.

'Reality' urged on NUPE

BY OUR LABOUR STAFF

THE National Union of Public Employees, one of the most militant unions representing low-paid public service workers, yesterday made clear it would fight for pay rises of at least 40 to 50 per cent.

A call for a 56 per cent pay rise this year from delegates at the union's annual conference in Eastbourne was headed off, however, after Mr. Alan Fisher, general secretary, advised union members to be "realists."

Mr. Fisher said the union would pursue wage claims which would achieve a minimum basic rate of around £80

The union was also united in its objective of achieving a 35-hour week, increased holidays and index linking or two-thirds of the national average.

Delegates had rejected a demand for a 56 per cent pay rise this year for lower paid workers in local government, hospitals, water services and universities which would increase basic rates from £54.45 to at least £85 a week.

The conference, on a card vote, supported across the board settlements instead of percentage rises and a common settlement date for all public service workers.

Furniture safety rules

RULES making upholstered furniture safer in the home, as announced this week by Mrs. Sally Oppenheim, Minister for Consumer Affairs, have been welcomed by the International Wool Secretariat.

Wool, with its inherent flame resistance, is a viable alternative to man-made materials the IWS said yesterday.

Mr. Tony Gould, UK branch manager for the IWS, said: "It could help solve this urgent problem for furniture manufacturers, many of whom do not appreciate that the price of wool is very competitive."

Pure new wool upholstery fabrics, with the Woolmark label, met the requirements of the new Standard BS5852 for both the cigarette and the match test.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
June 2—7	International Materials Handling (021-705 6707)	NEC, Birmingham
June 6—14	Fine Art and Antiques Fair (01-385 1200)	Olympia
June 8—11	Sunday Times Business to Business Exhibition (01-407 4046)	Earls Court
June 10—12	June Carpet Fair (01-236 0911)	Kensington, W8
June 10—13	Institute of Housing Annual Conference and Exhibition (01-242 3267)	Exhibition Centre, Harrogate
June 11—14	Photo-Sound 80 (0232 32830)	Kings Hall, Belfast
June 14—22	International Job Fair — OPPORTUNITIES (021-705 6707)	Earls Court
June 16—20	International Solid Waste Congress and Exhibition (01-580 5324)	Wembley Conference Centre
June 24	Intel Microcomputer Fair (0793 26101)	Wembley Conference Centre
July 1-3	Energy Show (01-837 3636)	Cunard International Hotel, W
July 1-3	Temperature Measurement and Control Exhibition and Conference (0822 4671)	Wembley Conference Centre
July 6-10	Autumn 80 Lightshow (02488 396)	NEC, Birmingham
July 8-10	Great Yorkshire Agricultural Show (0423 61536)	Harrogate
July 9-6	Royal Tournament (01-930 6009)	Earls Court
July 11-20	Taste of Asia Exhibition (01-272 4287)	Olympia

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
May 26—30	International Rubber and Plastics Exhibition (021-705 6707)	Singapore
May 27—30	Petroleum and Marine Environment International Conference and Exhibition	Monte Carlo
June 3—6	Reprographics Exhibition—REPROGRAPHICS 80	Basle
June 5—9	International Carpet and Floor Coverings Exhibition (01-439 3964)	Paris
June 9—14	BIAM—International Machine Tool Exhibition	Zagreb
June 10—14	Educational Equipment Exhibition — VISODATA (01486 1051)	Munich
June 17—19	Advanced Communications Exhibition — EURO-COMM 80 (01540 1101)	Copenhagen
June 19—22	Solar Energy Exhibition	Genoa
June 23—26	World Frozen Food Exhibition (01-629 8817)	Monte Carlo
June 23—26	ASEE Educational Resources Exhibition (01-437 0678)	Massachusetts
June 24-27	International Solar Forum (02013 4450)	Hamburg
June 28-July 4	International Welding Exhibition (01-278 0281)	Brno
June 28-July 6	Motor Show, Components and Accessories Exhibition	Braga
July 1-4	Latin American Oil Show (01-222 0466)	Rio de Janeiro
July 2—6	Audio Visual Exhibition AUVI (021-705 6707)	Singapore
July 7—11	International Training and Educational Symposium and Exhibition—INSTRUCTA (01-486 1951)	Johannesburg

BUSINESS AND MANAGEMENT CONFERENCES

Date	Title	Venue
May 27—30	Scotwork: Managing Negotiations (041-204 2186)	Hampshire
May 27—28	Reinforplast: 1980 Symposium	Brussels
May 28	Calus: The Taxation Implications of Development (0734 861101)	Mount Royal Hotel, W1
May 29—30	ICHCA: Developing Efficient Cargo Handling Systems for International and Intra-Regional Trade (01-828 3611)	Athens
May 29—30	Frost and Sullivan: Electronic Mail (01-486 8377)	Cumberland Hotel, W1
June 1—6	University of Bradford: Production Scheduling Workshop (Bradford 491773)	Heaton Mount, Bradford
June 2—3	FT Conference: World Banking (01-621 1355)	Singapore
June 2—3	AMR International: U.S. Financial Reporting and Disclosure Requirements for Multinational Corporations (01-262 2732)	Grosvenor House, Hotel, W1
June 4	Gower Conferences: Business Strategy for Strong Sterling (01-242 9485)	Royal Lancaster Hotel, W2
June 4	CCC: Company Pension Rights—Consequence of Employees Changing Jobs (01-222 6362)	Tara Hotel, Kensington
June 4	IDHE: Strategy for Survival (03745 54266)	75 Mark Lane, EC3
June 5	TEC: Training for Change in the Eighties (0865 512784)	Mayfair Theatre, W1
June 5	Oyez: Successfully introducing and using current cost accounts in your company (01-242 2481)	Inn on the Park, W1
June 5—6	AMD: Improving Results through Time Management (07535 56047)	Royal Garden Hotel, W8
June 8—13	Brunel University: Experimental methods for management training and development (0895 56461)	Uxbridge
June 9—10	AMD: Communication and Confidence Development for Managers (07535 56047)	Gloucester Hotel, SW7
June 10—11	INFOTECH: Which Word Processor? (0628 39101)	Tara Hotel, Kensington
June 11	Institute of Management Services: Staff Appraisal and Development (01-363 7452)	Mount Royal Hotel, W1
June 11—13	AMR International: The Management of Projects (01-262 2732)	Browns Hotel, W1
June 13—14	PCL: Technology and Adjustment to Change at Firm Level — German Swedish and UK experience (01-486 5811)	Marylebone Road, NW1
June 14-16	Cityforum: Capital Flows (0225 63573)	Interlaken
June 17	Eurex: Information, trading and confirmation system for Eurobonds (01-628 8787)	Great Eastern Hotel, EC2
June 17—18	ASM: Current Cost Budgetary Control (01-385 1992)	Europa Hotel, W1
June 24	Oyez: Pensions in the private sector (01-242 2481)	Carlton Tower, SW1
June 26-27	AMR: Banking and Finance in the Middle East (01-262 2732)	London Press Centre, EC4
July 1	Spicer and Pegler: The office of the 80s (01-283 2683)	Great Eastern Hotel, EC2

Technical Page

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

● PROCESSING

Fault-free boards

BOTH UPPER and lower surfaces of carrier boards for electronics substrates are given high standards of protection by a new automatic bandling, printing and drying system. Known as the DEK 3950, it is particularly suitable for larger substrates and those with flatness problems.

At the feed end, a vacuum bead unloads tha substrates one by one from the top of a vertical stack magazine and deposits them in separate segments of a walking beam which lifts them along step by step towards the printer. Fingers on the beams keep each unit completely separated from adjacent ones, and between movements they rest only on their extreme edges. This minimises mechanical damage and contamination of the surfaces.

After printing, another walking beam moves them along to a collocator, which deposits them in rows on the dryer belt.

The precision thick film printer used is the DEK 1750, which is available for any substrate size up to a maximum of 102 mm x 102 mm and gives registration better than ±25 microns. Production rates vary with the type of work and size of substrates: with 51 x 51 mm it is up to 1,200 per bour. Yield is exceptionally high because of the handling techniques used and the standard of repeatability of performance of the printer. Operation is automatic and controls are centralised in one panel at the front of the machine.

Safety circuits monitor performance and protect the operator, substrates and eqnipment. In the event of a damaged or out-of-tolerance substrate being loaded, or other malfunction being caused, the system stops automatically and warning lamps on the control panel indicate the nature and location of the stoppage.

DEK Printing Machines, 1 Euston Centre, London NW1 3JG. 01-387 0215.

● MAINTENANCE

Scans roof to find weak spots

UNTIL NOW, the traditional approach to preventive roof maintenance has been limited primarily to visual inspection and test cutting. Tremco, in conjunction with B.L. Thermographic Surveys, has developed the Thermocore for roof analysis which combines infra-red remote scanning with a thorough on-site inspection programme.

Everything, including roofs, emits infra-red radiation, which the Thermocore equipment detects and displays as a continuous thermal picture on a television screen. In these pictures the coldest areas show up as black, gradually lightening until the hottest become white.

The Thermocore cameras can detect energy losses from large roof areas and generally assist in thermal research. Scanning an area rapidly reveals thermal inconsistencies where flaws, cracks or potential danger spots may occur in the roof structure.

Technological developments make it possible to measure differences in temperature as small as 0.2 degrees C. Faults undetectable by less advanced methods of measurement thus become visible with the use of Thermocore, providing a quick analysis, long before a minor fault turns into a massive maintenance problem and there is a need for major roof surgery.

The equipment is complex and expensive bnt not delicate. In the bands of skilled technicians from B.L. Thermographic Surveys, working closely with Tremco, it has been made into a robust, go-anywbere system capable of carrying ont a roof survey however tough the climate.

The subect of the survey is scanned with an infra-red camera whilst the results are displayed continuously on a TV screen. Points of particular interest are photographically recorded for reference and interpretation to the client by Tremco. The photographs, called thermograms, clearly show isotherms and relative temperature differences and, with the aid of a reference temperature within the thermogram, absolute temperature can be calculated.

Following the survey, a written report of the roof condition incorporating all the relevant thermograms completes the Thermocore analysis system. This analytical report provides a comprehensive view of the general condition of the roof, and identifies the construction used on each roof. Further, it outlines moisture-bearing sections as shown by the thermograms and provides general recommendations on roof areas that need attention.

Tremco at Key House, Horton Road, West Drayton, Middx. 08954 40641.

Detects a fault in good time

PREDICTIVE contract maintenance has been devised to help companies introduce vibration analysis to their maintenance programmes without incurring the capital costs of the equipment involved.

PCM builds the cost of vibration meters and technical support feeds into a monthly payment—minimum £200—which can be readily costed into a company's production or maintenance bndget over a two-year period. Other more sophisticated equipment, including vibration analysers/dynamic balancers and data recorders can also be included in tha contract.

At the same time as the contract scheme, IRD has launched VISIN, the first of a new generation of vibration meters to use colour codes, greatly speeding up data collection.

The portable unit takes vibration amplitude readings in a variety of classifications which are sbown on a needle against four colours, eliminating operator errors and all but the most basic training. White is for perfect running, green indicates good, yellow forecasts imminent trouble and red signals that analysis of a potentially damaging problem is urgently required.

As well as speeding up data collection for large plants, the simplicity of VISIN will assist small companies with few, if any, skiled maintenance staff.

IRD Mechanalysis, Bumpers Lane, Sealand Industrial Estate, Chester CH14LT 0244 374914.

The electrical systems of the latest heavy road vehicles built by ERF can be thoroughly checked with the aid of the equipment shown in use here. Designed for ERF byThomas Electronics, Garrison Works, Stockport, Cheshire (Newmills 4500), the equipment will monitor over 100 test points and will not only indicate where a fault lies but also give warning of likely points of failure.

● RESEARCH

Making better crystals

QUARTZ crystal resonators of many types are employed in electronic systems to provide and select desired stable frequencies. Uses range from clacks and counters through communication systems. Relatively simple devices are capable of accuracies of better than a few ppm, which, for clocks, means about one second in a week.

Work at Philips Research Laboratories, Redhill (Surrey, England) and Cathodeon Crystals (part of Cambridge Electronic Industries) has shown that the stability of quartz resonators can be much improved by the use of plates cut from a quartz crystal at an orientation different from the one conventionally used.

Most important improvement obtained is the wider temperature range of tha new SC (strain compensated) cut as compared with the AT cut normally used. Other points of interest are lower sensitivity to thermal and mechanical shock.

The new devices age much more slowly and penalties to be paid for this improved performance are only minor.

It is harder to cut the quartz at the correct angles, and marginally more complex circuits are needed to suppress an unwanted vibration mode at a frequency 11 per cent above that of the temperature-stable one.

Philips Industries, Arundel Great Court, Arundel Street, London WC2R 3DT. 01-836 4360.

● HANDLING

Heavier containers fill pool

CONTAINERS WERE first introduced to GKN Chep's national pallet pool e couple of years ago, and now the company has extended this service further with the introduction of heavy duty containers designed primarily for hiring into the engineering and allied industries.

Each unit is formed out of a robust thick steel envelope welded on to a steel base plate to give maximum handling capacity, says GKN Chep, 284, Upper Richmond Road West, London, SW14 (01-878 7621).

Bottom skids give four way entry for forks and two way entry for wheel trucks. Integral locating lugs allow the containers to block stack for storage and warehousing.

This new service enables manufacturers to meet peak loadings without tying up valuable warehouse facilities, says the company. It also promises the user capital savings, eliminates misappropriation and loss, minimises container recovery (containers can be transfer hired to the next user, or "dehired" from customer's premises) and also rednces administration to a minimum.

● INSTRUMENTS

Screen samples and tests

PROMISING TO handle all kinds of wet and dry materials and said to be ideal for sampling and testing duties is a small portable screening unit mounted on a two-wheel trailer for towing behind a car or van.

The double-deck vibrating screen (24 × 47 inches) is operated by a 3 hp petrol engina mounted on the chassis. Water sprays are fitted as standard for rinsing purposes, and a separate potable pump is used to obtain water when working near rivers, ponds, streams, etc., says construction plant manufacturer Frederick Parker, PO Box 146, Leicester (Leicester 65999).

Four stabiliser legs are lowered when the unit is in its working position and there are three separate discharge chutes far the rejected and sized material.

The running gear is fitted with suspension units for high speed towing, and tha overrun towing machine mechanism has a parking brake. Overall 49 × 36 × 90.5 inches.

● LIGHTING

Fashion with fibre optics

FASCIA SIGNS for retail chain, Top Sbop, are now operating with the aid of fibre optics, creating an atmospbere of fantasy in the High Street, says retail design consultant, Fitcb and Co., 5 Hanway Place, London, W.1 (01-580 3060).

Each letter in the fascia signs, made by *John Anthony Signs*, is made up of numerous nylon fibres set in a mirrored blue glass sign. Light from behind is transmitted along the fibres and causes the surface of the sign to glow. By passing a multi-coloured film across the light, the sign achieves a gradual change of colour through the entire colour spectrum.

Inside the shops, specially designed lighting fitments inset in a dark blue ceiling illuminate by the use of a high outpnt quartz balogen material. The lights are enclosed in a mirrored, pyramid-shaped steel frame clad in polished aluminium sbeet. Apart from an unusual effect, the configuration avoids the use of costly spot-lighting.

● COMPONENTS

Heat pump projects

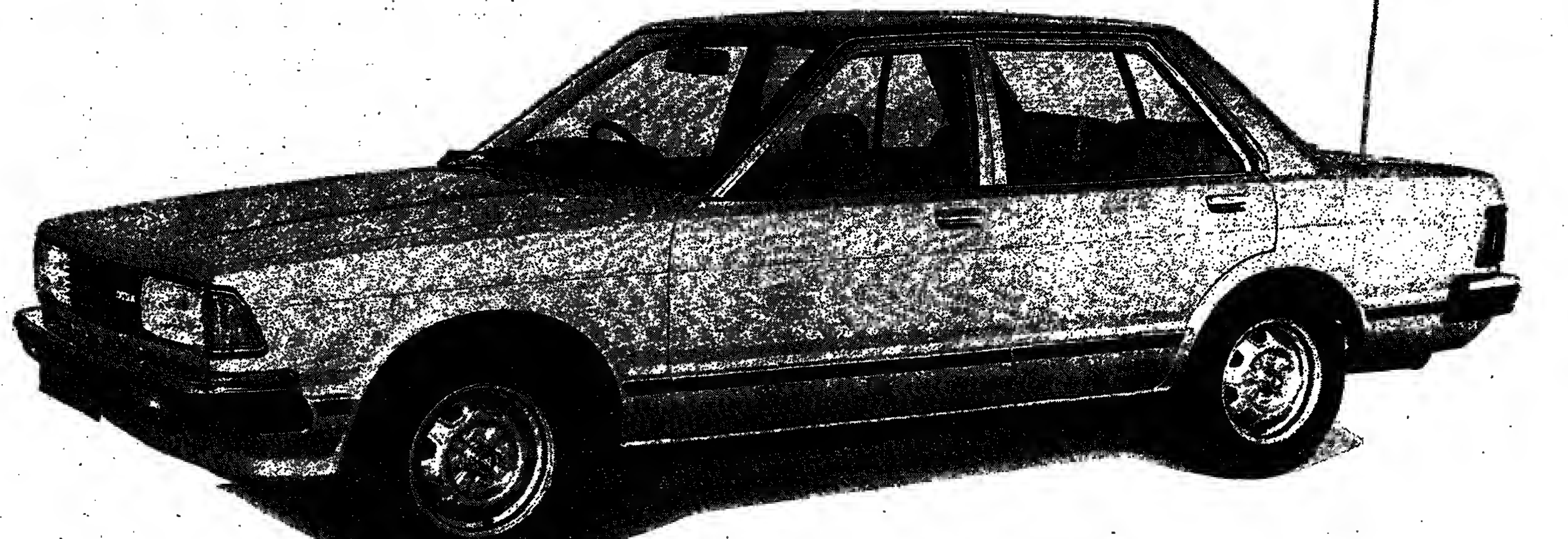
A THREE-YEAR US$4.4m contract awarded to Westinghouse Electric Corporation by Union Carbide Corporation on behalf of the U.S. Department of Energy calls for tha development of an electric beat pump for residential and commercial use.

Demonstration of prototypes is required by 1982. Performances at least 20 per cent better than that of the most efficient units at present available are sought. The work will be carried out in *Pittsburgh*.

Westinghouse is meeting 25 per cent of the cost of tha programme. It says that independent studies predict that in 1990 electric beat pnmp shipments may exceed 1.1m. By tha year 2000, the projected market share for electric heat pumps increases to 63 per cent of all building heating equipment, with shipments that could be greater than 1.6m units.

CONTRACTS AND TENDERS

The New Datsun Bluebird.



New Bluebird Saloon £3990

Now, Japan has produced the best car ever for Europe!

This is the New Datsun Bluebird. Handsome, functional elegance in a new shape for Europe.

A crowd-stopper without a doubt.

But that's only the start of the story. Because within the new styling, Datsun have incorporated the most modern technology the automotive sciences can provide.

The result is the New Bluebird range – the quietest, most balanced and refined cars that Nissan designers have created. At a price that represents the ultimate in sheer value!

The first Datsun Bluebird was unveiled 21 years ago and since that time, successive models have established a world-wide reputation for performance, economy of operation and durability. Over *4,500,000* Bluebirds have been produced for world markets.

Now comes the most exciting Bluebird yet, a car to challenge and beat the best that Europe can offer in the medium car range.

Technical Advances

High performance, high economy characteristics are engineered into every New Bluebird to produce one of the world's top family cars.

The New Bluebird bodyshells are pressed from a very advanced steel which includes manganese and silicon; this new metal giving high strength, light weight and high durability characteristics.

Technically, there are other major advances for the New Bluebird. Harmonised suspension with "zero scrub" front geometry and rack and pinion steering for safety and driving comfort; independent rear suspension with semi-trailing arms for saloon and coupé to give outstanding road holding performance and comfort; newly designed, ventilated front disc brakes with power assistance to give stable and reliable braking under the toughest driving conditions.

All incorporated in saloons that now have lots more space and sumptuous comfort for driver and passenger alike, together with a long list of special equipment at no extra cost.

There are four models in the New Bluebird range. Two saloons with the choice of a 1.6 litre or a 1.8 litre engine, a very roomy and good-looking 1.8 litre estate car and a Bluebird coupé with sparkling performance from a special version of the 1.8 litre power unit. The engines are of modern overhead camshaft design to give 100 m.p.h. performance yet, at the same time, use low grade petrol very sparingly indeed.

But the overall economy of the New Bluebird is not confined just to good fuel consumption figures; it has as much to do with Datsun's legendary reputation for mechanical reliability. Like all Datsuns, these new Bluebirds are built to spend their time on the road, not in the workshop.

Executive-Style Equipment

In every New Bluebird you'll find a long, long list of special equipment in true Datsun fashion. In fact, Bluebirds have more in the way of "extras" than some cars costing twice the price.

There's tinted glass * twin waveband push-button radio * quartz clock with month and date display * two-speed wipers with wash/wipe *and* variable intermittent wipe * halogen headlights * reversing lights * rear fog light * height and lumbar adjustment on driver's seat * adjustable steering column * lockable glovebox with light * roof console with adjustable map light * panel light rheostat * an array of warning lights for washer level, battery level, low fuel, door ajar, etc. * a warning buzzer when lights have accidentally been left on * interior release for boot and fuel lid * rev counter * comprehensive bi-level heating system with rear compartment ducts * courtesy lights on all doors * rear centre armrest * childproof locks * carpeted rear parcel shelf * inertia reel seat belts * rear fog lamp * drivers door mirror and much more.

All this at a genuinely competitive price!

New Bluebird prices start at £3990 for 1.6 litre saloon and £4098 for the 1.8 litre saloon, which makes them outstanding value compared with cars like the Renault 18, Vauxhall Cavalier 1600 GL, Ford Cortina 1600 GL, or other cars like the Sigma 1600 GL and Montrose 1600 GLS etc., which can cost up to £800 more.

With the New Bluebird range, Datsun have produced an advanced new car that will influence the pattern of motoring in Europe for years to come.

The New Bluebird is at your dealer's showroom now. See it, and test drive it soon.

New Bluebird Coupé £4598
(Alloy road wheels shown extra)

New Bluebird Estate £4498

ONLY inland transport from Datsun UK. Compound to the dealer, road fund licence and number plates are not included.

Datsun U.K. Limited, Datsun House, New Road, Worthing, Sussex. Tel: Worthing 68561. DATSUN

Building and Civil Engineering

New welcome for U K in Nigeria

THE CONTRACT signed by Wimpey (Nigeria) for the construction of a £24m metallurgical training centre in Nigeria is proof of the improved climate in the country for British companies, after difficult times over the last 12 months in what has traditionally been one of Britain's most lucrative markets.

Wimpey is building the centre as part of a giant steel works for which the contract was awarded last July to the Russian company Tiajpromexport. It is part of the deal struck between the Soviet company and the Nigerian Government that Nigerians will be trained as quickly as possible to occupy all the key positions in the complex.

The aettlement of the Zimbabwe issue has enahled the Government to take a more favourable view of UK companies tendering for federal government contracts at a time when the country's economy is opening up fast after tbe rapid rises in the world nil price.

Meanwbile, at bome, the Edinburgh office of Wimpey Construction UK has been awarded three contracts with a total value of £3.9m.

In Livingston New Town the Development Corporation has let a house contract in the Ladywell west area.

In Glenrothes new town, Wimpey bas secured a contract valued in excess of £1.8m for the construction of an office block which will be built for the Scottisb Widow's fund and Life Assurance Society.

Kirkcaldy District Council has awarded a contract for the modernisation of 143 houses and flats at Shotburn Crescent, Leven.

Industrial work

WITH A total of £4.2m in newly awarded contracts, most of its latest work is in high technology industries says Fairclough Building.

A £1.6m contract at Heathrow for the Civil Aviation Authority involves altering and refurbisbing the airport's control tower, with completion due in April, 1981.

Under o contract worth £1.5m the company's southern division will build factories and warehouses at Riverside Road, Summerstown, Wandsworth, for St. Martin's Property Corporation.

In Wales, contracts worth £1.1m cover tbe building of two new telephone exchaoges which will bring many South Wales area subscribers into tbe STD network. At Neath, a motor transport workshop will be demolished to make way for a new exchange under a contract worth £800,000.

Second exchange at Llanrumney, Cardiff, is due to be finisbed at the end of next year and is worth £350,000 to the company.

Services at RAF base

WORK ON a £2.9m contract covering mecbanical and electrical services at RAF Marbam, Norfolk, has just been started by the Rosser and Russell Group.

Due for completion in March 1982, tbe contract covers installations for aircraft hangars, two squadron headquarters buildings, two large personnel accommodation blocks and a number of smaller buildings. Electrical work accounts for £1.09m of the total value of the contract.

The contract also covers installation of standby diesel generation sets ad an underground fuel pipeline network. Maln contractor is George Wimpey.

Canadian project in Indonesia

NORTHWAY-GESTALT Corporation, subsidiary of Spar Aerospace, Toronto, has been awarded an aerial photography contract in the republic of Indonesia for about C$9m (£3.36m). Tbe contract is an equal partnership with Kenting Earth Sciences of Ottawa and is financed by tbe Canadian International Development Agency.

Project work extends over a two-year period (extendable by mutual agreement with the Indnnesian government) and the programme calls for bighaltitude photography of about balf of the country, and is the largest such contract ever ohtaloed by a Canadian aerial survev organlsation.

Cleveland Bridge £4m steel job

TRAFALGAR HOUSE company, Cleveland Bridge and Engineering, has been awarded a £4m contract from Shell UK Exploration and Production for the fabrication, loadout, and sea fastening of a module support frame for the Sbell/Esso North Cormorant Field.

Frame will consist of tubular trusses and legs, plate girders, skid beams, floor area and walkways. It will contain a tank and pumps for the collection of reclalmed oil from the production module, drain interceptor tank and sewage treatment for the accommodation module, sea water and geoeral service pumps, pig launcher and receiver for the gas and oil pipelines.

Brewery in Egypt

JOINT VENTURE company of Hassan M. Allam Sons of Cairo and J. Jarvis and Sons of London, Allam-Jarvis General Contracting Company, is to build /a regional brewery at Abou Hamad, 70 km from Cairo towards Ismalia, Egypt.

Included in the £2.6m contract are 13 buildings on a 60,000 square metre site whicb will house all brewing operations, including the final bottling of the company's Stella beer.

Awards to Whatlings

CONTRACTS VALUED together at more than £6.5m have been awarded to Whatlings, inclnding three jnbs (totalling £5.5m) for Strathclyde Regional Council.

Work bas started on the construction of a £2.6m pumping main between Prestwick and Meadowbead sewage treatment works, and commencing shortly is a £2.3m secondary school at Newarthill. Third contract in this group is for £600,000 and is for the construction of a roundabout near the junction of the A809 and B8050.

The company also announces an £834,000 award for 45 houses at Lockerbie for Annandale and Eskdale District Council and a £152,000 project to replace water supply tanks insulated with asbestos material in 1,000 houses throughout Wigtown District for the local council.

Housing by Mowlem

THREE housing contracts at Milton Keynes, worth together £3.3m, have been awarded to John Mowlem by the Development Corporation.

Ona contract, called Furzton 1A, worth £1.6m, is for 89 timber-framed bouses at Parkside, Milton Keynes, together with ancillary works.

The second job is the Bradwell 3A development nf 72 bomes of traditional brick cavity wall construction at Bradwell Village and the third award is fnr the second phase of the C13 development in central Milton Keynes.

Worth £550,000, this work involves erection of a three-storey block containing five cnmmercial units on the ground floor and 32 one and two person flats and bedsitting rooms above.

B. B. Kirk gets £3½m

TOTAL VALUE of contracts recently awarded to B. B. Kirk (Construction) is over £3.5m and includes effluent treatment works extensions at Whaley Bridge, Stockport, for the North West Water Authority with a value of £3.1m.

Other civil engineerlng work includes widening the A65 at Ingleton (£152,000) for the North Yorksbire County Council, and a new sewer (value £60,000) at Bentham, for the Craven District Council.

Building contracts include an extension for Armoride at Earby, bridge repair works near Carnforth for British Waterways Board, a vehicle wash for G. H. Lee, giving a total value of over £100,000.

£2m town centre

HUNTING GATE has been appointed as developer for a town centre scbeme, worth more than £2m, at the junction of Latborn Road and Huyton Lane, Huyton for the Metropolitan Borough of Knowsley.

Tbe 4½ acre site is located next to the town centre facilities and, after being won on tender from the borough council, is leased by the company.

Development will include a £25,000 square feet retail unit, 5,150 square feet retail sbop, petrol filling station, pub/restaurant, etc. Included is extensive landscaping, enclosed pedestrian mall areas, surface car parking for 260 vehicles, and associated service areas.

West's Civil wins £2½m

MEMBER OF WGI Group, West's Civil Engineering, has won £2½m worth of contracts including a new medical centre, value £260,000, for the Property Services Agency at HM Dockyard Rosyth.

South nf Scotland Electricity Board bas placed a £240,000 job for the construction of a condensate polishtlng plant at Longannet Power Station.

Other work includes a project fnr Matthew Hall Norcain Engineering at Grangemeuth for BP Chemicals, site preparation work, etc., for Scottish Development Agency, and projects at Prestwick Airport for Scottish Airports and Uddingtnn and Renfrew for Scottish Gas.

£3m worth to Townson

WORK WORTH more than £3m baa just been acquired by William Townson and Sons, including one major project, worth £1.1m for Central Lancashire new town for industrial nursery units at Walton Summit.

Other projects include fast food restaurant for Warburtons (£189,000); Rivington and Blackrod Scbool for Metropolitan Borougb of Bolton edncation authority (£470,000); industrial units for Vine Cross Investments (£269,000); warebouae units for Lyn Town (£512,000); extensions to premises for Bolton Gate Co. (£130,000); and various smaller cootracts totalling £¼m.

Pochin's projects

CONTRACTS TOTALLING about £5m bave been won by Pochin Contractors who will build a £2m office complex for Warrington (Lancs) Development Corporation, and a £¼m swimming pool for Oldham (Lancs) Metropolitan Council.

Other major works include an extension for Boots' chemist chain at premises in Holyhead, Anglesey (£370,000), and work for British Aerospace at Broughton, near Chester, has been approved in a contract worth £620,000.

Further new contracts include work for the Clayton Aniline Company, Manchester (£600,000), the Wellcome Foundation (£100,000), and Britisb Rail (£130,000).

Factories by Cubitts

Work is to start in June on a £1.7m Central Lancashire Development Corporation contract fnr factories. The contract has been awarded to Holland, Hannen and Cubitts (Northern).

Six new units will be built at the corporation's Walton Summit Employment Centre giving a total floorspace of 137,950 square feet. Completion is due by summer 1981.

Town centre project

WORK HAS begun on the Hertford town centre redevelopment at Bircherley Green, formerly occupied by the central bus station and surface car parks.

The developer, Costain Property Developments, is in partnership with the East Hertfordsbire District Council for the £2.1m scheme which is on the edge of a conservation area. Tha River Lee navigation canal runs alongside the site.

Existing shopping facilities will be extended by Costain Construction and the former car park is being replaced by a multi-storey car park for about 200 cars, a new bus station and an open market area.

The acheme was designed by Leslie Jones and Partners and is planned for completion by autumn 1981.

London & Northern busy

COMPANIES WITHIN London and Northern gronp have announced contracts valned together at £2m.

T. M. Simpsen has two jobs, including one for £465,000 in respect of plumbing and heating installations in 245 new bouses for Glasgow District Council. Tbe other job, worth £180,000, is for plumbing wark only, also on 245 new dwellings at Irvine Newton for the local corporation.

In the Midlands, E. Fletcher Buildings is due to atart work on 50 flats for the Reyal British Legion Housing Association at Melton Mowbray. Wnrth £851,733, it starts on June 2 and is due for completion in 19 months.

Wnrk valued at £89,000 has commenced on a block of six flata for Kettering Borough Council in Station Road, Kettering.

Border Engineering of Whitehaven is to build office and factory extensions valned at £485,697, for the English Industrial Estates Corporation at Cleaton Moor.

TVstudio complex

SECOND PHASE of a television atudio complex for Tyne Tees Television at Newcastle upon Tyne is to be undertakan by Shepherd Construction under £1.5m contract.

It will include studios, offices, control suite and link to existing buildings. Completion is due in May next year.

The first phase, involving sub-structure and car park and valned at £420,000 waa also undertaken by Shepherd.

IN BRIEF

● Adamson Butterfly has won a £212,000 contract to fabricate and erect 84 steel girders for the construction of the Avon Gorge gallery near Bristol which will protect the A4 road from unstable rock from the Gnrge cliffs.

● Two-year contract worth £¼m bas been awarded to Soil Mechanics by the UKAEA acting as agent for British Nuclear Fueis for work involving various site investigations for existing and proposed structures at Windscale and Calder works.

● Welwyn Hatfield District Council has placed a £111,708 contract with the Wernick Group for a three-storey Secometric building to serve as offices and depot for its housing department at Wellfield Road Depot, Hatfield.

● Included in Bullock Developments' £318,000 contract awarded to Willment Bros. for a supermarket to be occupied by International Stores in Cbipping Norton, Oxon, is provision for a 557-sq-metre sales area, ancillary atorage, staff accommodation, offices and machinery plant room.

● ICI has placed a £201,000 contract with Farrow Construction (Northern) for alterations to its plastics division plant at Britannia Mill, Darwen, Lancs, which inclndes extensions to existing factory and erection of three ancillary buildings.

● A. Roberts (Building) has begun £400,000-worth of renovation at the National Westminster Bank, 126 High Holborn, London, WC1.

● Two contracts, together worth £1.1m, have been awarded to Y. J. Lovell (Southern), one to refurbish a W. H. Smith and Son store in Worthing, Sussex, and the nther to build 16 flats at Guildford, Surrey.

● A negotiated contract worth about £700,000 to refurbish part of Centre Point, London, in preparation for its occupation by the Confederation of British Indnstry has been secured by the London Mechanical and Electrical Services Divisions of Haden Young.

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THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

David throws Goliath a lifeline

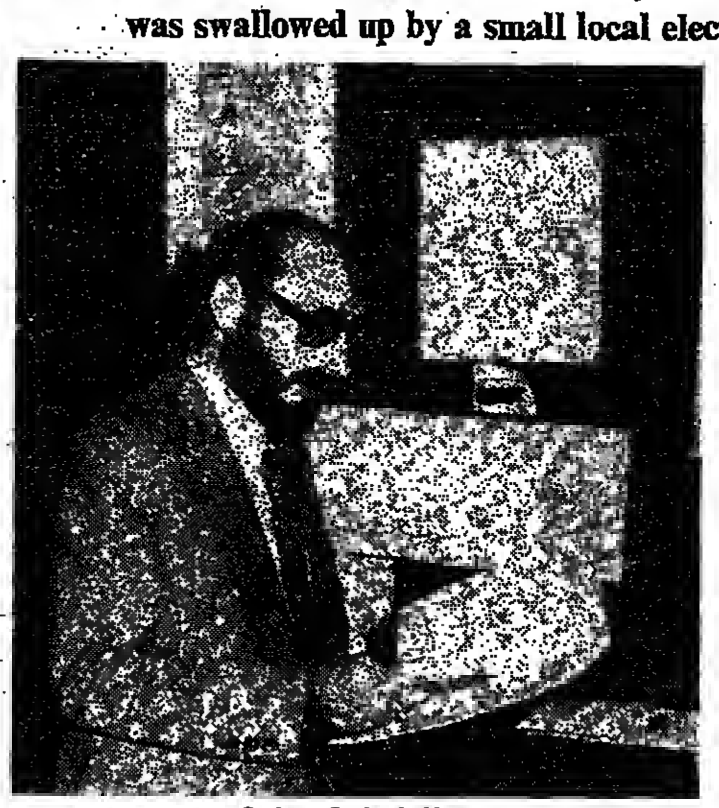
Jimmy Burns investigates how Plessey's Portuguese subsidiary was swallowed up by a small local electronics company

Take s lsrge multinational with years of business experience, assured international outlets and a fairly solid bome base. Set next to one of its foreign aubsidiaries a small local company in the same field, relatively prosperous but little known beyond its national frontiers. Identifying the potential predator and prey would normally be child's play. But in Portugal an unusual reversal of the David and Goliath roles has taken place. Not only is it baving a considerable impsct on the country'a telecommunications induatry, bnt it is also proving a test case for indnstrial relations six years after the revolution.

Two months ago Centrel, a small electronics firm, took over Plessey Portuguesa, a subsidiary of Plessey, the UK electronics and telecommunicstions company.

Plessey Portuguesa was the second largest Plessey subsidiary in Europe; as the largest telecommunications manufacturer in Portugal it was one of the country'a major employers with 3,500 workers. It had about 60 per cent of the market for switcbing equipment and was the major supplier of telepbones to CCT/TLP, the State-owned company.

By contrast Centrel's operations were limited and bardly distinguishable from the many medium and amall sized companiea whicb litter Portuguese industry. It bad a labour force of 250 and an annual turnover of escudos 275m (£2.5m).



Sr. Jorge Rocha de Matos

Sr. Jorge Rocha de Matos, Centrel's manager director, who engineered the acquisition of Plessey's electronics offshoot and gave e reprieve to the workers facing redundancy.

Radar equipment

Since being founded in 1969 it had made a name for itself on the domestic market by providing transmitters and small-scale radar equipment to the armed forces at the time of Portugal's wars in Africa. Following decolonisation, Centrel diversified into other areas such as coin boxes and strengthened its researcb and development programme with a seriea of agreements with foreign companies. It bas also negotiated small co-operation contracts with Ericsson of Sweden and CNK of Denmark.

Nevertheless, these did not conatitute a real threat either to Plessey or to ITT, the other multinational witb a considerable stake in the Portuguese telecommunications industry.

A potential source of strengtb for Centrel was the fact that it was 30 per cent owned by the Portuguese state bolding company, Instituto de Participaciones de Estado (IPE). This could have meant that the Government might have agreed to contribute to any major expansion or possibly provide cheap funds for capital needs.

However since the election last December of Portugal'a first staunchly conservative government since the revolution, such a prospect no longer seemed viable. One of the messages that the Democratic Alliance had put acroaa in its electoral campaign was that the policy of interventionism was to be discontinned.

This explains ot least some of the uncertainty of success that surrounded the visit of Sr. Jorge Rocha de Matos, Centrel's managing director, wben be travelled to London last February to put s formal bid before the Plessey Group.

By then the local telecommnnications industry was in considerable confusion after a dramatic warning from Plessey Portuguesa that it would go into voluntary liquidation unless the Portuguese Government took steps to guarantee its survival. The company's finances bad gradnally been eroded by a 50 per cent dip in export orders during the previous two years, and labonr and industrial problems within Portugal.

In addition CIT-ALCATEL the French telecommunications company, bad been allowed to break into Plessey's monopoly and supply up to 40 per cent of new telephones to CCT/TLP. At the same time Plessey'a management was Insisting that the company was overmanned and that productivity was being hampered by absenteeism and stoppages.

Plessey Portuguese has generally been profitable since inception in 1963 but in recent years bas incurred losses. These totalled Es 25m (£0.23m), rising to Es 29m (£0.26m) in 1979.

The company's ultimstum was simple enough. It would pull out of Portugal unless the Government agreed to allow Plessey Portuguesa to lay off 1,200 out of its 3,500 workforce without compensation and to guarantee future ordera for equipment. The Government refused to consider either.

It was at this point that Sr Matos stepped in with his major initiative.

In essence he drew up a recovery plan for Plessey Portuguesa that required Centrel to acquire Plessey Portuguesa on the basis of assuming its liabilities.

Centrel agreed to repay Es 110m (£1m) of Plessey inter-company loans over the next three years and to honour Plessey Portuguesa's debts of Es 375m (£3.4m). Permission was obtained to convert thia into medium and long term debt.

But the major innovation in the agreement involved the future of Plessey Portuguesa's labour force. Ratber than precipote the biggest lay-off aince the revolution, Centrel insisted that a compromise scbeme should be attempted.

This was tbot 960 workers should be temporarily suspended for 12 months after which they ahould be reinstated. During the intervening period, the workers would be paid o minimum monthly salary of Es 7,500 (£168) and pnt through a retraining course capable of adapting their skills to the company'a future operations.

Significantly Sr. Matos did not sign anything with Plessey Portuguese until he bad obtained the full backing for the scbeme for the largely Commnnist-dominated unions at the company.

Tbot the workers agreed despite rhetorical protests from sbop stewards was a major breakthrougb in the recent history of Portuguese industrial relations; voluntary acceptance of a temporary lay off in a private company would have been unthinkable less than four years ago wben the revolution was reaching its climax.

Sr. Matos'a justification for giving the workers a life line is a purely pragmatic one and underlines the fact be is still an entrepreneur, albeit a benevolent one. His view is that Portuguese managers should accept thot economic, rather than political motives, drive a large section of the Portuguese labour force; in other words that fear of unemployment (in Portugal it is running at more than nine per cent) has produced a new flexibility for compromise.

Sr. Matos, 38, can claim to be one of Portugal's better known businessmen. He is on the Board of the country's msin employers' federation, the Confederation of Portuguese Industry (CIP) and is deputy chairman of the Association of Portuguese Industry, which undertakes major research into industrial problems.

Agreement with unions

"I bave no objection to raising salaries or having more men than I really need. But in return I expect good bard work and no unjustified absenteeism," ne says. Significantly his agreement with the unions on short time is based on the assumption that Central Automatica, as his newly acquired company is called, will triple its productivity over the next year.

Sr. Matos ia convinced that in a small country like Portugal local management with experience of working in a small company could prove more successful in steering o troubled giant through tricky waters.

He believes that diversification and continuing co-operation with Plessey, as envisaged in the agreement, will ensure a wider grip on the domestic market as well as increasing export opportunities in Asia, Latin America, and Africa. Diversification is expected to include a greater empbasis on the production of transmission equipment for the armed forces as Portugal strives to meet its NATO commitments in the wake of the Afghanistan and Iranian crises. Central Automatica is also bidding against Thomson of France for a major contract for new air control equipment at Lisbon Airport.

While the prospect of Portugal's entry into the EEC in 1983 will make Central Automatica more vulnerable to competition, Sr. Matos is convinced that small is not only beoutiful but also works.

War War, not Jaw Jaw

BY ARNOLD KRANSDORFF

MANAGING a modern business is mucb like fighting a war, or so Hans Widmer would bave us believe. To sncceed, he urges, one should take beed of the great military strategists.

Take Frederick the Great for example. "To plan a successful campaign," he wrote, "you must know your enemy, your allies, and the nature of your terrain."

Or Sun Tzu, the early Chinese military writer: "The winning general makes many calculations before the battle starts; the general who loses makes few advance calculations."

Widmer, a specialist in corporate strategy with McKinsey and Co., the management consultants, believes that experience on the battle field has clear parallels with running a large business in today's highly competitive environment, and can provide nseful insights into whot it takes to outwit competition.

Writing in the latest McKinsey Quarterly,* be says it is a truism of military strategy that various indireat alternativea that concentrate on a particular area of weakness sre preferable to a bead-on assault across a whole front. Indeed Sun Tzu wrote "that the direct method may serve to join battle, but to secure victory the indirect method must be used."

To illustrate the point, Widmer takes the example of a forklift truck manufacturer whose margins we rein dismal contrast to the quality and versatility of his macbines.

The reason, Widmer auggests, was simple. Because bis forklift trucks were so versatile, they carried a correspondingly bigh price tag. Yet sn analysis of users' application requirements revealed that fewer than 15 per cent of potential customers actually needed the product's versatility and were prepared to pay a premium for it.

One possible alternative strategy would bave been to redesign the product in order to concentrate on the other 85 per cent of the market. But researcb showed that the market leader in the field bad s unique and unassailable coat advantage from economies of acale.

Among the makers of costlier all-purpose machines, however, no market leader had yet emerged.

So the company cbanged its market strategy to concentrate on the 15 per cent niche thus ideotified. In the event it eventually managed to dominate—"as it turned out, very profitably indeed."

Again, sccording to Sun Tuz: "He who would avoid what is strong must strike at what is weak."

To illuatrate the business analogy, Widmer quotes the case of the constructor of process plants wbose margins on tbe few contracts it was able to secure were discouragingly low.

Because the company bad superior engineering knnw-how, and efficient faciilties and equipment, management did not understand wby these advantages did not add up to success.

However, after detailed analysis the answer suddenly became clear; the advantage of its superior engineering was outweigbed every time by the inclusion of certain compooents that were made in-house, on a job-shop basis, ot unduly bigh cost.

By buying them in instead, the company's profitability improved dramotically, its tenders became increasingly competitive and its market share soared to 40 per cent in little more than a year.

Widmer thinks that Napoleon is another military strategist wbo needs careful scrutiny. "The first task of any general," according to the Frenchman, "la to work out what is to be done. The next is to determine wbether be bas the resources to overcome any obstacles the enemy can put in bis way."

According to Widmer, the military principle of economy of force states that the resources should be accurately motched to the terrain, and to tbe nature of the enemy forces—no tanks in the mountains, no Alpine troops at seo.

The Swiss watcb industry is an example where this principle is not observed, he says. At tbe moment the industry is concentrating its resources on electronic tecbnology. Yet, the cost of a chip in a quality watch amounts to no more than one per cent of the retail price.

Since electronics know-how is freely available on world markets, Widmer says that there is little point in developing and monufocturing one's own.

Yet vast amounts are being poured into this research wbile the really vital value-added function, marketing, ia left in outside hands, he complains.

Widmer believes that reodiness to view corporate strategy in military terms often slops short of objective-setting, and even then, goals and targets are orticulated, if ot oll, in very imprecise terms.

On the subject of leadership, Widmer quotes tbe nineteenth century German strategist Carl von Clausewitz, who said: "The more a general demands of his troops, the better bis demands will be met."

However he concedes that wbile it is relatively easy for a general to make demands, it is less easy for a chief executive who is obliged to rely on faith, hope and charity.

** The McKinsey Quorterly, Spril 1980, ovailable from 245 Park Avenue, New York, NY, USA; 74 St. Jamea's Street, London, SW1; and McKinsey'a other national offices.*

BUSINESS PROBLEMS — BY OUR LEGAL STAFF

Winding up

What is the simplest and cheapest way to wind up a small private company, with no assets or liabilities? The last return was sent in May 1979. Would it be necessary to submit another?

The normal course would be to bave the Company struck off the Register nnder Section 353 of the Companies' Act 1948. This can be acbieved by failing to file annual returns and making no response to the Registrar'a noticea consequent thereon. However the Registrar ia willing to strike off withont that process on your notifying him that the company has ceased to trade and bas no assets or liabilities. You msy be required to file a final account.

Loss insurance

I am in the container leasing business in that I own a number of containers whleb are leased out to ahipping companies. It so boppened that one of my containers was in Iran when the "revolution" blew np and apparently is still there with the result that I have earned no rent on this since September 1978. The container has now been mislaid for more than 18 months and, as far as I know, there is no certain proof that it is still recoverable. In these circumstances would the law support a claim by me on my insurers for total loss?

While one cannot "assume" that the container has been lost, we think that you may be able to place the onus on the insurers to show wbere it is if you record by a statutory declaration all the evidence wbich points towards its being lost. You would be wise to consult a solicitor.

Liquidations

The last published accounts of a certain company were for the 17 month period ending March 1978. The sbares were suspended in February 1979 and a provisional liquidator was appointed in June 1979. Is there no legal requirement for the firm, or the provisional receiver to inform shareholders of the annual position?

You can opply to the liquidator for the information which you require. If this is not forthcoming you should consult a solicitor with a view to applying to the court for the replscement of the liquidator.

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All inquiries will be answered by post as soon as possible.

LOMBARD

Stand up and be counted

BY SAMUEL BRITTAN

TO THOSE of us used to dealing with European central banks, the procedures of the U.S. Fed come as a breath of fresh air. The year 1979 was a momentous one for the Fed. It shifted its operating target from interest rates to the monetary base—a shift which the Bank of England still tells us is impossible with all the debating tricks at its command. The Fed also changed its timetables and procedures in accordance with an Act of Congress.

What is even more amazing to European eyes is that the Fed has published not merely its broad guidelines, but its detailed operating instructions. A chart published in the March 1980 Review of the Federal Reserve Bank of St. Louis takes all the mystery out of what occurred. Up to early October 1979, the Fed fixed a fairly narrow range—characteristically some ¾ per cent—for the key interest rate, the Fed Funds rate. This involved guessing, in British-type fashion, which level of interest rates went with which level of monetary growth.

From October, 1979 to January, 1980, the range for Fed Funds was broadened to 4 per cent—from 11½ to 15½ per cent. Thus there was no decision to let interest rates go where they would: but the emphasis shifted in a clearly defined operational way from interest rate stability to monetary rate stability.

Dissident

But open government does not stop here. The key Open Market Committee meets roughly every month and its deliberations are published in summary form a few weeks later—not in the bromide version of a UK Cabinet minute, but giving exact opinions and a guide to who said what. The 1979 deliberations are also conveniently summarised in the St. Louis Review.

The most frequent dissentient was Governor Henry Wallich. He dissented from the basic "M1" or narrow money supply target both when it was fixed in February, 1979, and when it was renewed in July. Although the range of 1½ to 4½ per cent for M1 appeared low, Governor Wallich thought that it considerably understated the effective growth of the money supply, taking into account all the leakages and substitutes, such as Automatic Transfer Service (ATS), Negotiable Orders of Deposit, repurchase agreements and recourse to Eurodollar borrowing.

One might say that these were the predictable reservations of a hard-money man. Governor Wallich makes no secret of his policy stance; and as a German speaker he is an honorary member of the inner "grossdeutsch" group of central bankers, comprising German, Swiss, Austrian and Dutch members who meet informally during the BIS sessions at Basle and no doubt find much to agree about on the state of the world. Nevertheless, Governor Wallich was proved right by events.

Views

Interestingly, he was quite frequently joined in his hard money dissents on short-term tactics—although not on basic objectives — by a certain Governor Volcker, when he represented New York Fed before he became chairman of the whole system. The hard money dissentients had their case confirmed by subsequent inflation rates.

Governors Balles and Partee, on the other hand, believed that the U.S. economy had reached a cyclical peak in the spring of 1979 and favoured a "prompt easing of money market conditions to provide support for the economy"—which did not in fact go into recession until a year later, even assuming that such activism would have been at all helpful. A more interesting and more recent dissent was that of Governor Anthony Solomon from New York from the recent sharp drop in short-term interest rates.

Can one imagine the executive directors of the Bank of England recording their views in similar fashion on Minimum Lending Rate? And in the British context, it would also be necessary to record the views of Treasury Ministers and the five Permanent Secretaries.

"Stand up and be counted" would be as beneficial as it would be un-British and perhaps un-European.

Forecasting the future for video

FILM AND VIDEO

BY JOHN CHITTOCK

IN LONDON last week, video was discussed almost as widely as the Olympic Games and Iran—at least in the central West End area where every major hotel was filled with trade shows. It was what the industry rather inelegantly calls "brown goods" week (white goods are refrigerators, washing machines, etc.—brown goods cover video, radio and hi-fi). Philips was at the Intercontinental, Sony at the Cumberland, Thorn EMI at the Royal Garden and so on.

Here was a chance for the trade to see its first glimpse of Sony's optical video disc player, which was being shown in London for the first time. Toshiba was also demonstrating its LVR videocassette machine, which unlike all others uses an endless loop of very short tape with some 300 tracks packed into its width. On each cycle the recording/playback head reads another track, allowing fast duplicating of the tapes and rapid location of any part of the programme.

Conflicting

Philips were braced for the UK launch next month of the machine, an eight-hour playing time rival to JVC's VHS and Sony Betamax. Grundig is also producing a machine to the same format.

In this business, nobody any longer knows anything for certain. So much is happening, with so many rival and non-compatible products (confused by a rash of conflicting forecasts), that it all shows signs of becoming a marketing man's nightmare. What everyone wants to know most of all is which systems will survive (since there is not room for all of them) and how many machines, tapes and discs will be sold in the next five or 10 years.

The Sony optical video disc player, shown in a back room at the Cumberland Hotel last week, may provide the answer to one of these question. With Philips, RCA and JVC now in deadly rivalry with their respective video disc systems, the best may not necessarily be the winner.

All the audio-visual *Press* representatives I spoke to agreed that the Philips VLP system was the most attractive in terms of technical performance and capability. But the main battle now being fought is one of alliances—with RCA getting suport from CBS, Zenith and others; JVC attracting Thorn EMI; and Philips forging links with IBM, MCA and even Sony.

The Sony video disc player is compatible with the Philips system. To confirm the point last week, I produced an MCA/Philips disc and asked the Japanese engineers present to try it on their player. Without batting an eyelid, they courteously obliged and it worked perfectly. Co-operation between Sony and Philips on this system must have been closer than some might care to admit, for Sony are adamant that their player is only an industrial version; they insist that they have yet to decide which system will be used for their consumer player.

Yet there can be little doubt that Sony would prefer to stay with the optical system—if it was not for the pressures in Japan for a national standard, with JVC's technology dominating the political scene on this issue. What a tragedy, with optical players already widely in use, and Sony's demonstration last week leaving everyone spellbound with its superb quality.

Meanwhile, the forecasters are trying to make some sense of this huge business, offering clues or guesses about the size of the market. What must be the most comprehensive attempt so far is about to be published by Mackintosh Consultants—a four volume study under the title Home Video and Electronic Photography.

The conclusions of this extensive survey are, in one or two respects, controversial. In looking at video discs, for example, Mackintosh takes a rather gloomy view of the future compared with many of the forecasts made by others. By 1985 it estimates that the annual U.S. sales of video disc players will be 700,000. But RCA predicts 200,000 sales in 1981 alone, their first year on the market. Others predict a total "population" by 1985 of 1.4m at the lowest and 8m at the highest calculation. Pioneer, one of the Philips camp, is forecasting a six figure 1981 U.S. production figure for its own branded player.

With videocassette machines, Mackintosh is less cautious, estimating that 25 per cent of all U.S. households will own a videocassette recorder "within the foreseeable future." In the UK market, Mackintosh forecasts deliveries of 215,000 for 1980, rising to 440,000 per annum by 1981.

I was unable to find in my own intense searches through these volumes much on *total* populations, the statistics in which much of the industry is interested. For example, a constant question being asked is "how many videocassette recorders are there in the UK?" I even received a similar query recently about the numbers in Ireland. For the record, I don't know the Irish figure but the accepted UK estimate is well over 300,000 units at present with a forecast of 500,000 by the end of this year.

Elsewhere in the pages of the Mackintosh report are some of the warnings often given in *this column; although* again cautiously expressed, such as "by 1985 the market for video cameras will have overtaken that for 8mm cameras . . ." Profiles on users are also included, so that we are able to determine that most U.S. owners of recorders are grouped in the middle-age band, are male, and regard the picture quality of their machines as generally good to excellent. European results are similar, although even more male-dominated, and less willing to report picture quality as excellent (perhaps, with the superior PAL television system of Europe, they are more discriminating?).

The complete Mackintosh study is hardly going to be a best seller at $25,000 (sic) and my own editorial mind would be critical of some of the inadequate labelling of tables — such as one which fails to clarify that 1985 figures for video discs are annual sales not a cumulative total.

Cautious

Nevertheless, the information in the report is the most thorough documentation of the subject, covering the photographic and 8mm movie markets as well as video.

Perhaps Mackintosh is right to take a generally cautious view. Certainly it is a safer course to steer. But I have now seen enough of market forecasting in this business to know that they can't all be right, or wrong, and in the end one begins to wonder how such forecasts are finally compounded. One thing is certain: video is now *a* huge *growth industry*, and if the forecasts made by some of the manufacturers in the business are wrong, there will be a lot of red ink flowing in their balance sheets.

Home Video and Electronic Photography. Published by Mackintosh Consultants Co. Ltd., Mackintosh House, Napier Road, Luton LU1 1RG, England.

Cape Chestnut can beat Saison

RACING

BY DOMINIC WIGAN

DESPITE THE presence of Saison in today's Chequers Fillies Stakes at Sandown, Cape Chestnut could represent the day's betting value.

Although this Bustino filly has yet to win, she has shown enough to suggest that a conditions race, such as this afternoon's one *mile* event, *is* within her compass.

A chestnut daughter of the William Hill Gold Cup winner, Boswellia, Cape Chestnut ran an encouraging race on her sole juvenile appearance. She ran the more experienced Bozovici to a length in York's Gilbey Champion Racehorse Futurity.

Returnig to York 12 days ago the improving Cape Chestnut ran with spirit against the more forward Ta Kenewa, until fading through tiredness.

Sure to be sharper after that outing, Cape Chestnut can make her class tell against Saison, for whom there were no excuses in the £1,000 Guineas.

Noble Saint, who was given little chance by many in the Yorkshire Cup because of the fast ground, could hardly have won easier.

Trainer Robert Armstrong was surprised by the four-year-old's performance, and he seems sure Noble Saint is now better than ever.

If, as the Newmarket four-year-old's display suggests, there are few better stayers in training—now that Le Moss is sidelined—he should not be hard pressed to score in the Henry II Stakes.

Noble Saint is only a pound worse off with the second and third in the 1¾-mile Yorkshire Cup, Buttress and Vincent. Vincent was going well at the end and I shall be more than surprised if he does not turn the tables on the Queen's Buttress.

Stable confidence behind Habitor proved to be misplaced when Lady Beaverbrook's Habitat two-year-old could finish only fifth of 12 behind Recitation in Newbury's Penlee Stakes.

However, the West Ilsley colt showed enough promise to suggest that compensation could be forthcoming in the Philip Cornes Nickel Alloys Stakes.

SANDOWN
2.30—Habitor**
3.05—Noble Saint
3.35—Cape Chestnut***
4.45—Sir Gordon

TV/Radio

† Indicates programme in black and white

BBC 1

For Tuesday 27th May 1980
6.40-7.55 am Open University (Ultra high frequency) only). 1.15 pm News. 1.30 The Flumps. 2.45 Pobol y Cwm. 3.15 Songs of Praise from Sutton, Surrey. 3.53 Regional News for England (except London). 3.55 Play School (as BBC2 11.00 am). 4.20 Lassie. 4.40 Jigsaw. 5.05 John Craven's Newsround. 5.15 Ask Aspel.

5.40 News (London and South East only).
5.55 Nationwide.
6.20 Nationwide.
6.55 Bugs Bunny.
7.05 Sykes (London and South East only).
7.35 Life on Earth.
8.30 Rings on their Fingers.
9.00 News.
9.25 The Rhesus Conundrum.
10.25 Variety Club Lunch.
10.55 Platform One.
11.25 Weather/Regional News.

All Regions as BBC1 except as follows:

Cymru/Wales—5.15-5.40 pm Bilidowcar. 5.55-6.20 Wales Today. 6.55 A Party Political Broadcast by Plaid Cymru, the Welsh National Party. 7.0-7.35 Heddiw. 11.25 News and Weather for Wales.

Scotland—1.10-1.15 pm The Scottish News. 5.55-6.20 Reporting Scotland. 7.5-7.35 Sykes (as London and South East). 10.55 Current Account. 11.25 News and Weather for Scotland.

Northern Ireland—3.53-3.55 pm Northern Ireland News. 5.55-6.20 Scene Around Six. 7.5-7.35 Hello Sunshine. 11.25 News and Weather for Northern Ireland.

England—5.55-6.20 pm Look East (Norwich); Look North (Leeds, Newcastle) Look North-west (Manchester); Midlands Today (Birmingham); Points West (Bristol); South Today (Southampton) Spotlight South West (Plymouth). 7.5-7.35 East (Norwich) The Norfolk Coast; Midlands (Birmingham) A Man of Many Parts; North (Leeds) Beneath The Pennines; North East (Newcastle) Spike's Night North West (Manchester) Contrasts: South (Southampton) The Getaways: South West (Plymouth) To The Uttermost Part of The Earth; West (Bristol) The Honourable Member's Wife.

BBC 2

6.40-7.55 am Open University.
11.00 Play School.
4.50 pm Open University.
6.55 Swim.
7.20 Mid-Evening News including sub-titles.
7.30 Cantilena: recital of Renaissance and Baroque Music.
8.00 Out of Court.
8.25 The Philpott File: Inside a Multinational.
9.00 A Question of Guilt.
9.30 The Enigma Files.
10.20 Lions Rugby Tour.
10.45 Newsnight.
11.30 The Old Grey Whistle Test.

BBC2 Wales only: 12.15-12.25 am A Party Political Broadcast by Plaid Cymru, the Welsh National Party.

LONDON

9.30 am Focus on Wildlife. 9.55 A Big Country. 10.20 "The Four Feathers" starring John Clements and Ralph Richardson. 11.55 Bubbles. 12.00 Cockleshell Bay. 12.10 pm Pipkins. 12.30 The Sullivans. 1.00 News plus FT Index. 1.20 Thames News. 1.30 Take the High Road. 2.00 After Noon Plus. 2.25 Racing From Sandown Park. 3.45 The Allan Stewart Tapes. 4.15 Get it Together. 4.45 Magpie. 5.15 Emmerdale Farm.

5.45 News.
6.00 Thames News.
6.25 Help.
6.35 Crossroads.
7.00 Survival.
7.30 The Streets of San Francisco.
8.30 Only When I Laugh.
9.00 Frontier.
10.00 News.
10.30 Medical Ethics.
11.30 Quincy.
12.25 am Close: Personal choice with Dame Peggy Ashcroft.

All IBA Regions as London except at the following times:

ANGLIA

9.30 am Spiderman. 9.50 Call It Macaroni. 10.15 The Beachcombers. 10.40 Arctic Doctor. 11.05 BJ and the Bear. 11.55 Cartoon. 1.25 pm Anglia News. 6.00 About Anglia. 7.00 Enterprise. 7.30 Charlie's Angels. 11.30 Rush. 12.30 am You Have A Minute Lord?

ATV

9.30 am Something Different. 9.45 How Fares The Land? 10.10 Sesame Street. 11.10 Animated Classics. 12.30 pm George Hamilton IV. 1.20 ATV Newsdesk. 5.15 Survival. 6.00 ATV Today. 7.00 Emmerdale Farm. 7.30 A Man Called Sloane. 11.30 ATV Newsdesk. 11.35 S.W.A.T.

BORDER

9.30 am Focus on Wildlife. 10.00 Sesame Street. 10.55 Roses Cricket. 1.20 pm Border News. 3.45 Roses Cricket. 5.15 Roses Cricket. 6.00 Lookaround Tuesday. 7.00 Emmerdale Farm. 7.30 The Streets of San Francisco. 11.30 TV Movie: "Moon of the Wolf." 12.30 am Border News Summary.

CHANNEL

1.20 pm Channel Lunchtime News. What's On Where and Weather. 5.15 Bailey's *Bird*. 6.00 *Report at Six*. 7.00 Curtain Raiser. 7.05 TV Movie: "Aronk." 10.28 Channel Late News. 11.30 The New Avengers. 12.25 am Commentaires et Previsions Meteorologiques.

GRAMPIAN

9.25 am First Thing. 9.30 The Coral World. 10.25 Spy Extraordinary. 10.50 New Vikings in the Sunrise. 11.45 Cartoon Time. 1.20 pm North News. 6.00 North Tonight and area weather forecast. 7.30 A Man Called Sloane. 11.30 Reflections. 11.35 Streets of San Francisco. 12.30 am North Headlines.

GRANADA

9.30 am Sesame Street. 10.25 History Around You. 10.40 Cartoon Time. 10.55 Roses Cricket—Yorkshire v Lancashire. 1.20 pm Granada Reports. 5.15 Roses Cricket. 6.00 Granada Reports. 6.35 *Emmerdale Farm*. 7.05 Tuesday Premiere: "The Man From Atlantis." 11.30 Lucan.

HTV

9.30 am Animated Classics (Sinbad). 10.10 Wild, Wild World of Animals. 10.35 The Lost Islands. 11.00 The Mad Oog Gang Meets Rotten Fred and Ratsguts. 11.25 The Four Nations Tournament (Ice Hockey). 11.50 Larry the Lamb in Toytown. 12.30 pm George Hamilton IV. 1.20 Report West Headlines. 5.15 Ladda and his Lamp. 5.20 Crossroads. 6.00 Report West. 6.30 Interlude. 6.35 Survival. 7.05 The Tuesday Movie: "Contraband Spain." 11.30 Mannix.

HTV Cymru/Wales—As HTV West/HTV General Service except: 12.00-12.10 pm Ffalabalam. 1.20 Penawdau Newyddion y Dydd. 1.25-1.30 Report Wales Headlines. 4.15-4.45 Sbardun. 6.00 Y Dydd. 6.15 Report Wales. 6.30-6.35 Party Political Broadcast on behalf of Plaid Cymru. 10.30 Bywyd. 11.15 Medical Ethics. 12.15-12.45 am Take The Mick (Mick Potts and the Gateway Jazz Band).

SCOTTISH

9.30 am Kangaroos Can't Be Cornered. 10.20 Ride to a Spanish Virgin. 10.55 Roses Cricket (Yorks v Lancs.). 12.30 pm Roses Cricket. 1.20 pm News and road and weather. 1.30 A Sharp Intake of Breath. 5.15 Popeye. 5.20 Crossroads. 6.00 Scotland Today. 6.30 What's Your Problem? 7.00 Take The High Road. 7.30 Charlie's Angels. 11.30 Late Call. 11.35 Celebrity Concert (Diahann Carroll).

SOUTHERN

9.30 am Dynomutt the Dog Wonder. 9.55 Rush. 10.55 Southsport Cricket: Hampshire v Kent. 1.20 pm Southern News. 3.45 Southsport Cricket (Hampshire v Kent). 5.15 The Undersea *Adventures of Captain Nemo*. 5.20 Crossroads. 6.00 Day by Day. 7.00 Emmerdale Farm. 7.30 Incredible Hulk. 11.30 George Hamilton IV.

TYNE TEES

9.20 am The Good Word followed by North East News. 9.30 Morning Movie: "Julius Caesar" starring Richard Johnson, John Gielgud and Charlton Heston. 10.55 Roses Cricket. 1.20 pm North East News and Lookaround. 3.45 Roses Cricket. 5.15 Roses Cricket. 6.00 North East News. 6.02 Crossroads. 6.25 Northern Life. 7.00 Emmerdale Farm. 7.30 Charlie's Angels. 10.30 North East News. 11.32 Police Women. 12.32 am York Mystery Plays.

ULSTER

9.55 am Sesame Street. 10.55 Roses Cricket. 1.20 pm Lunchtime. 4.13 Ulster News Headlines. 5.15 Cartoon Time. 5.20 Crossroads. 6.00 Good Evening Ulster. 7.00 Emmerdale Farm. 10.29 Ulster Weather. 11.30 Soap. 12.00 Bedtime.

WESTWARD

9.35 am Untamed World—Japan. 10.00 Ten Times Empty. 10.25 Spiderman. 10.50 Chopper Squad. 11.35 The Beatles. 1.20 pm Westward News Headlines. 5.12 Gus Honeybun's Birthdays. 5.15 *Bailey's Bird*. 6.00 Westward Diary. 7.00 Curtain Raiser. 7.05 TV Movie: "Aronk" starring Jack Palance. 10.28 Westward Late News. 11.30 The New Avengers. 12.25 am Faith for Life. 12.30 West Country weather, shipping forecast.

YORKSHIRE

9.30 am Kangaroos Can't Be Cornered. 10.20 Call It Macaroni. 10.45 Cartoon Time. 10.55 Roses Cricket: Yorkshire v Lancashire. 12.30 pm Roses Cricket. 1.20 Calendar News. 3.45 Roses Cricket. 5.15 Roses Cricket. 6.00 Calendar (Emley Moor and Belmont editions). 7.00 Emmerdale Farm. 7.30 Charlie's Angels. 11.30 Benny Goodman.

Radio Wavelengths

1 1053kHz/285m 1089kHz/275m
2 693kHz/433m 909kHz/330m & 88-91vhf stereo
3 1215kHz/247m & 90-92.5vhf stereo
4 200kHz/1500m & 92-95vhf

BBC Radio London: 1458kHz, 206m & 94.9vhf
Capital Radio: 1548kHz 194m & 95.8vhf
London Broadcasting: 1151kHz, 261m & 97.3vhf

RADIO 1

(S) Stereophonic broadcast
‡Medium wave

5.00 am As Radio 2. 7.00 Dave Lee Travis. 9.00 Simon Bates. 11.31 Paul Burnett. 2.00 pm Andy Peebles. 4.31 Kid Jensen. 7.00 Personal Call. 8.00 Mike Read. 9.50 Newsbeat. 10.00 John Peel (S). 12.00-5.00 am As Radio 2.

RADIO 2

5.00 am News Summary. 5.03 Ray Moore (S). 7.32 Terry Wogan (S). 10.03 Jimmy Young (S). 12.00 pm David Hamilton (S). 2.03 Ed Stewart's Request Show (S). 4.03 Much More Music (S). 5.00 News. 5.05 Waggoners' Walk. 5.20 Much More Music (S). 8.03 John Dunn (S). 8.02 Jack Buchanans. 9.02 Glamorous *Nights (S)*. 9.55 *Sports Desk*. 10.02 The American Way of Laughs. 11.02 Brian Matthew with Round Midnight, including 12.00 News. 2.02-5.00 am You and the Night and the Music (S).

RADIO 3

†6.55 am Weather. 7.00 News. 7.05 Overture (S). 8.00 News. 8.05 Morning Concert (S). 9.00 News. 9.05 This Week's Composer: Nielsen (S). 10.00 Roger Woodward piano recital, part 1 (S). 11.00 Interval Reading. 11.10 Recital, part 2. 12.15 pm Dvorak and Strauss concert, part 1 (S). 1.00 News. 1.05 Six Continents. 1.25 Concert, part 2 (S). 2.00 Sacred Garden of Delights (S). 2.55 Dvorak chamber music (S). 3.35 Corinthian Summer Festival (S). 4.25 Jazz Today (S). 4.55 News. 5.00 Mainly for Pleasure (S) (‡ and mono only from 6.20). 7.00 From the Proms 79, part 1: Rimsky-Korsakov, Pärt, Rachmaninov (S). 7.55 Roland Barthes: a postscript. 8.15 From the Proms 79, part 2: Stravinsky (S). 9.00 The *Most Powerful Woman* in America: Katherine Graham in conversation. 9.30 The English Ayre (S). 9.50 The Piano Music of Busoni (S). 10.30 Haydn chamber music (S). 11.00 News. 11.05-11.15 Closedown: music by Schumann (S).

VHF only—Open University: 6.00-7.00 am and 5.20-7.00 pm and for Scottish students only: 12.00-1.00 am

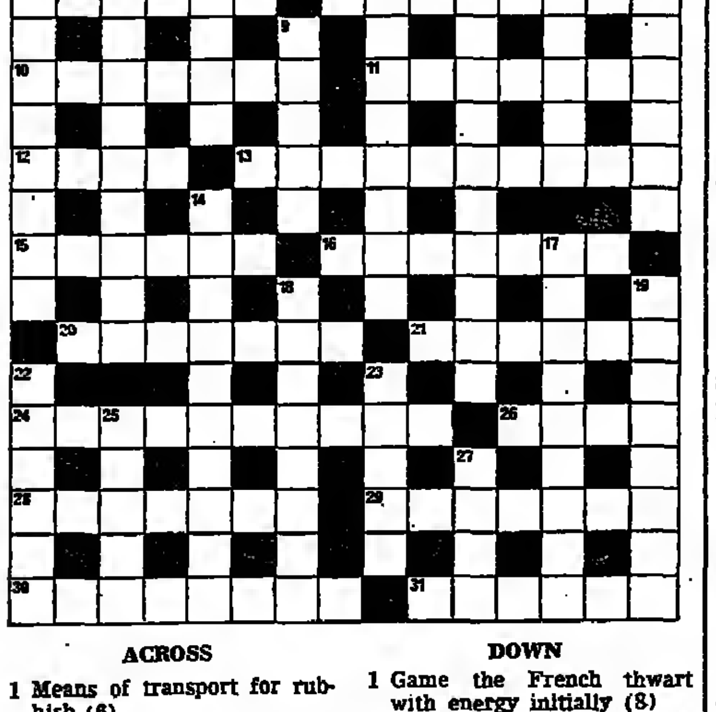
RADIO 4

5.00 am News Briefing. 6.10 Farming Today. 6.25 Shipping forecast. 6.30 Today including 6.45 Prayer for the Day, 7.00, 8.00 Today's News. 7.30, 8.30 News headlines, 7.35 Thought of the Day. 8.45 The Best of Myles. 9.00 News. 9.05 Tuesday Call. 10.00 News. 10.02 Medicine Now. 10.30 Daily Service. *10.45 Story Time*. 11.00 News. 11.05 Thirty-Minute Theatre (S). 11.35 Wildlife. 12.00 News. 12.02 pm You and Yours. 12.20 Down Your Way. 12.55 Weather; programme news. 1.00 The World at One. 1.40 The Archers. 1.55 Shipping forecast. 2.00 News. 2.02 Woman's Hour. 3.00 News. 3.02 Listen with Mother. 3.15 Little Dorrit (S). 4.10 Bookshelf. 4.40 Announcements. 4.45 Short Story. 5.00 PM: News magazine. 5.50 *Shipping forecast*. 5.55 Weather; programme news. 6.00 News. 6.30 Detective. 7.00 News. 7.05 The Archers. 7.20 Dunkirk 1940. 8.05 In Touch. 8.30 Music for a Living. 9.15 Down the Garden Path. 9.50 Kaleidoscope. 9.59 Weather. 10.00 The World Tonight. 10.30 Round *Britain* Quiz. 11.00 A Book at Bedtime. 11.15 The Financial World Tonight. 11.30 Serenade. 12.00 News.

BBC Radio London

5.00 am As Radio 2. 6.30 Rush Hour. 10.03 The Robbie Vincent Telephone Programme. 1.03 pm London Live. 4.30 London News Desk. 5.35 Look, Stop, Listen. 7.03 Black Londoners. 8.00-5.00 am Join Radio 2.

F.T. CROSSWORD PUZZLE No. 4,281



ACROSS

1 Means of transport for rubbish (6)
4 Guide monster around mother (8)
10 Top grain could be a freak (7)
11 Bone giving us a clap (7)
12 Elliptical enclosure where ducks may be seen (4)
13 A painful growth in the foot's a place of misery and could be one of the cirripedia (5-5)
15 Get hold of dog in bishop's office (6)
16 Pale brown mattress (7)
20 What soldiers may do with their arms now (7)
21 Smoker's jacket? 6)
24 Tale of terror welcome to those who are bald (4-6)
26 Drink part of some Advocaat (4)
28 Try a note with will (7)
29 Deep-red chalcedony in Eastern fish (7)
30 Entreaty certain to give delight (8)
31 Satellite involved in lap ten (6)

DOWN

1 Game the French thwart with energy initially (8)
2 One who kicks his heels for a living (3-6)
3 Time to rise and pour forth (4)
5 Hold back reserves on coach (8)
6 Bird to attack vigorously a gullible person (10)
7 Rodent for doctor to employ (5)
8 Deftly putting beast on front and back of lorry (6)
9 Fruit and vegetable on church (5)
14 Traverse thoroughfares seen on TV (10)
17 Bending in electrical cable I take on (9)
18 Arrange short English version I ne'er must finish (8)
19 Red Giant disturbed in incline (8)
22 Tea put up to cajole (4, 2)
23 Smallest measure on the way (5)
25 Publication is to prosecute at law (5)
27 Examination of the mouth (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

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THE ARTS

Wigmore Hall

André de Groote

by DOMINIC GILL

The performance of Ravel's *Valses nobles et sentimentales* with which the young Belgian pianist André de Groote began his recital on Friday was immediately arresting: for its poise and clarity, for its very beautiful pedalling, for the richness and delicacy of its inner-voice leading. The focus was so close, and the exposition sometimes so intricate, that once or twice the flow of the music was nearly lost: but never entirely—the grip was firm, the command always successfully recovered; it was a reading, dryly bittersweet, of unusually pungent and original flavour.

The impact of the *Valses* was dissipated much too soon, which is to say instantly, by the first British performance of a rambling piece of subfusc sub-Rakhmaninov entitled *Lacrymosa* (no tears except of regret) by the Belgian Franklin Gijselinck (*b.* 1950)—one of those younger composers who, with a certain pride and not without a certain smugness, confess to "avoiding modernity for modernity's sake" — whatever the disclaimer may mean: is one to assume that Mr. Gijselinck does, or does not, therefore embrace antiquity for antiquity's sake? Heaping peat upon the fire, Mr. de Groote continued with the sonata (1949) of Henri Dutilleux—which is to be sure a much more coherent and original elaboration of fundamentally the same idiom; but it is a long sonata and by the end of it all echoes of the Valses had finally disappeared.

With two such divergent paths to choose between we should be thankful that Mr. de Groote resumed his recital after the interval with Schumann's *Davidsbündlertänze*, instead of giving us the whole of the solo piano oeuvre of Arnold Bax from *In a Vodka Shop* to *Lullaby*. And as his Ravel had led us to suspect, his Schumann proved him to be a pianist of warm and penetrating gifts—inclined at crucial moments to go just over the top, but in broad aim so intelligently and sensitively directed that such small excesses were easily forgiven. Just occasionally there was more *Humor* than accuracy; but this too was an error in the right direction. One of the few elements of the *Davidsbündlertänze* which Mr. de Groote did not appear to have considered carefully was where, and how long, to make pauses between the individual pieces — a small point, more important than it seems, and absolutely vital to the dramatic effect.

Elizabeth Hall

London Sinfonietta

Friday's Sinfonietta programme was solidly interesting: the First Chamber Symphony of Schoenberg and the Chamber Concerto of Berg, preceded by the 1917 Chamber Symphony of their cautious contemporary Franz Schreker. David Atherton drove the Sinfonietta through the Schoenberg with his usual dispatch and perhaps undue haste—these players have long known how to achieve the difficult instrumental balance required and it would be nice to relish it less breathlessly. It remains a forcefully cogent reading.

The first two movements of the Berg were lovingly unfolded. Paul Crossley again made something subtle and personal of the solo paino part, which many pianists find curiously ungrateful; György Pank revealed the full poignancy of the violin's own movement, with playing of magisterial sympathy. Atherton secured near-miracles with Berg's wind band. The duet-cadenza flagged slightly toward the end, and the Rondo never quite shook off a suspicion of helter-skelter rush—the great chorale-intonation of the "Schoenberg" theme did not arrive with the thrilling inevitability it can have. That was at the end of what had become a very long concert: for some reason Hugh Wood, who wrote an excellent programme-note about Schreker's relations with the Second Viennese School, came on after the Schreker to tell us expansively how it had sounded to him, and how the Schoenberg was going to sound, and later how the Berg was going to sound too—oddly downmarket for a Sinfonietta concert.

As Wood observed, Schreker's Chamber Symphony proved to sound like several people, at least one of them Schreker. He might have mentioned Szymanowski too (who had already conducted his own music in Vienna), for the shimmering wistfulness and the leisurely cyclical construction; and the silvery trio of Schoenberg's *Herzgewächse* of 1911 — harp, celesta and harmonium—is reinforced here by piano and percussion. The chromatic lines have a predictable droop, but the work was eminently worth setting in its fascinating context.

DAVID MURRAY

Festival Hall

Wilhelm Kempff

In his mid-eighties, Kempff is surely the oldest as well as one of the most distinguished pianists still before the public. Cautious expectations before his Beethoven recital on Sunday were, in the event, most generously rewarded. He had wisely re-ordered his programme so as to begin with the early E-flat Sonata, op. 7. He delivered it with relaxed gentleness, youthfull ardour recalled from a great distance. Beethoven's strong dynamic contrasts were almost smoothed away, and the surging Rondo was mildly rendered.

In the last sonatas there is no substitute for mature breadth and experienced insight. I was about to write that Kempff's account of the op. 109 Sonata in E was illuminating in every detail, but details seemed never to be dwelt upon—the whole Sonata was sung, sweetly and gravely, as if on a single easy breath. The transparent density of the music was not made heavily meaningful by slow tempi and the final statement of the Andante subject was utterly simple. Kempff carried the last variation up into its celestial trills unerringly, like someone with a natural head for those exalted heights.

Kempff has earned the right to help himself to both hands for the opening flourish of the C minor Sonata, op. 111. The concentrated argument of the Allegro con brio was conducted in often fragile tones, a matter of explaining the import very clearly rather than acting it out in full dramatic panoply. The great variation-movement, the Arietta, was inspired and inimitable; here the full sense was translated into marvellous piano-playing, buoyantly serene. It pierced the heart. Not all Grand Old Men are irreplaceable, but I think Kempff is.

DAVID MURRAY

Beach scene by Degas

National Gallery

The artist's eye by WILLIAM PACKER

The National Gallery's excellent series of small exhibitions, in which distinguished artists have been asked in turn to make a personal selection from the stock of works held in the permanent collection, continues (until July 20), with R. B. Kitaj's the eye in question. The idea is so simple, the rewards so obvious, that little explanation, let alone justification, is needed. When visiting just such a place as the National Gallery, we all indulge our own tastes, consult our favourites, cultivate established interests and, from time to time, break new ground: and in doing so, perhaps unthinkingly, we bring together as it were, and thus appropriate to ourselves, a private mental collection of masterpieces. But the scholars who look after these things for us, so order and arrange them that like is used to sit with like, everything in its proper place and extraordinary, unlikely and enlightening conjuctions across the centuries are rarely allowed to happen.

The artist, on the other hand, may have just as particular a professional interest in these things, but his habit of mind is likely to be somewhat different, not necessarily broader in its range, but consciously prepared, perhaps, to fly freer. He will look anywhere, to any age, for the help and stimulus he needs with his current preoccupations, making connections that we might not notice and the scholar dismiss as spurious or irrelevant.

For example, it comes as a considerable shock for the scholar to confront, as he does here, Mantegna's *Agony in the Garden* cheek-by-jowl with Monet's waterlilly pond, or to find the Degas beach scene below the Bellini *Agony* and flanked by two Duccio's the *Annunciation* and the *Transfiguration*.

It must be said also that one of the happiest features of the entire programme has been, more than mere tolerance, the positive relish with which the curatorial staff has greeted these encounters.

Kitaj has filled the Boardroom with works of many periods and schools: Graeco-Roman, early Italian and Flemish to post-Impressionism, the artists as various—Duccio and van der Weyden, Piero and Titian, Velazquez and Rembrandt, Degas and van Gogh.

It would be straining theory too far to seek to tie them all together more closely than the loose threads of his interest would allow. Artists are brothers under the skin and this a sympathetic act of homage, not a manifesto.

Bath Festival

Opening concerts by MAX LOPPERT

Not everything about the first week-end was quite right. (The weather, dry after a damp opening parade, seldom sparkled in the way that completes the pleasures of the city). Yet in the range and the blend of its concert-giving Tallis and Purcell to Stockhausen, string quartet, choral, and solo piano recitals, and the promise of Handel, Paisiello, Carter and much more chamber music and solo song still to come—Bath and its artistic director William Glock continue to provide models for other, more generously funded, but less inventively planned British festivals. If, as is often claimed, the most active element in good luck is foresight, then a notably lucky stroke of planning this year has been the choice of John Casken as featured young composer; for he furnished the chamber ensemble Capricorn, in its Sunday morning recital, with an uncommonly exciting and dramatic premiere.

Firewhirl, for soprano and septet (woodwind trio, horn, string trio) is a setting of a narrative poem by George Macbeth—strong in colour and incident gradually developed towards a Grand Guignol ending, apt for musical use though not easily imagined (in a prior reading) the inspiration of such vivid, subtly paced musical treatment. In the midst of a summer *fire-dance* in rural Finland, a young girl begins to dance alone; the bloody denouement, in which her hair, dragged in a piece from her head, catches fire, affords a fitting climax to both the folk-tale mystery and the erotic symbolism of the fable.

The music, alert to the pull of each element, combines them with unusual skill. A brilliant, never emphatic suggestion of drones, folk-fiddling, and stamping dance rhythms of the North forms a backdrop to a richly textured and harmonised evocation of the girl's apart-ness and increasing fascination. The slowly unwound vocal line is beautifully sensuous in its individual shapes, precisely regulated to quicken the dramatic pulse; Casken, unlike many young composers, clearly understands both the purpose and the limits of vocal display. (A tribute, in passing to the beautiful singing of Teresa Cahill — I have never before heard her in such full, glittering voice.) *Firewhirl* leaves the impression of an expertly made concert *scena*; it also leaves a fruitful hint that Casken's gifts may require further development in the theatre.

The unfamiliar pleasure of a new piece enthusiastically received was one to put against some more familiar pleasures to which Bath's concert halls supply the London visitor with a gracious and civilised setting. On Saturday Vlado Perlemuter gave at the Assembly Rooms a Ravel and Chopin piano recital similar, not identical, to the one recently heard and admired at the Elizabeth Hall. The Bath hall is not ideal for the instrument; its reverberance blurs and fuzzes the bass register (the treble, on the other hand seemed to bloom there, as did Miss Cahill's soprano). But whatever its limitations, the place seemed to inspire the pianist to fresh heights of aristocratic eloquence. The Chopin selection was a miracle of poetic under-statement, of simple surfaces and gloriously penetrative insights—has the B minor Sonata ever sounded more substantial, less periodic in its flights of fancy? Once again, one could not swear that finger slips, in a group of mazurkas and nocturnes and in the Ravel sonatine and *Gaspard* earlier, were of no account whatsoever: but the distinction of Perlemuter's artistry, and the serene virtuosity of his impulses, make most pianists of virtuoso stamp seem like mere journeymen.

There have been a few Bath disappointments. Heard from the back of a crowded Guildhall on Saturday afternoon, the Academy of Ancient Music seemed to be playing Purcell trio sonatas with almost whimsical likeness — the dramatic emotions patterned therein were very hard to divine, and to that extent, however accomplished the playing of period string instruments, the performances were unauthentic. Charles Brett's easily produced countertenor droned through a group of songs as though the words meant nothing, indeed were no more than vocalisation material; he should be required to write out the sentence from Christopher Hogwood's programme note concerning Purcell's skill in English word-setting at least 100 times, as penance. And in their Sunday evening recital the Melos Quartet of Stuttgart, resident group of the first weekend, sounded quite as corporately glowing of tone and as bland as remembered. Glowing, evenly matched string tone in quartets by Haydn (the *Emperor* and Beethoven Op. 135) is a virtue that must never be underestimated: yet it was not long before one began to hunger for a little complementary daring. The effect, in Brahms' C minor quartet, was unintentionally to highlight the indigestible amount of Brahms stodge in the musical mixture.

Festival Hall

Chaikovsky's Manfred by ANDREW CLEMENTS

Under anything less than a totally sympathetic conductor, Chaikovsky's *Manfred* Symphony can seem overblown, an unmanageable and prickly score. Many established Chaikovsky specialists fight shy of adding it to the symphonic canon, and thus it appears only rarely in the concert hall—still less often in satisfactory performances—and has hardly been better served on record. But on Friday evening Riccardo Chailly conducted the London Symphony Orchestra in a performance of *Manfred* that was memorable for its almost complete success in comprehending the structure and in projecting the bold outlines of its dramatic programme.

Mr. Chailly is now 27, and was for two years assistant to Claudio Abbado at La Scala. He first conducted the LSO at the last Edinburgh Festival, and also last year took charge of *Don Pasquale* at Covent Garden. On the evidence of this concert he promises a great deal. His account of *Manfred* was characterised by spiky, crisply articulated brass and violent climaxes: the first movement a compelling single span, its combined recapitulation and coda immediately and comprehensively overwhelming, the second a demonic rather than elfin scherzo.

The third-movement Pastorale was less convincing. Chaikovsky's version of the bucolic is never entirely happy; on this occasion it was not helped by soupy, unfocussed oboe playing. Mr. Chailly so entirely solved the problems of the finale with his bold brashness, textures roughly torn, the organ's entry in the final pages deliberately alien, that it seemed extraordinary he should deem it necessary to make a cut in the body of the movement, and that one of particular savagery, removing the fugal development and hurrying the symphony to a premature close.

The symphony redeemed what had begun as a disappointing evening. Claudio Arrau was soloist in Beethoven's third piano concerto, and his usually careful, studied approach produced on this occasion a performance of extraordinary caution, with risk all but eliminated.

Royalty

Barnardo

by B. A. YOUNG

Ernest Maxin, author, composer and director of *Barnado*, has produced and/or directed such television shows as *Black and White Minstrels*, *The Morecambe and Wise Shows*, the *Tommy Steele Shows*, the *Petula Clark Series*, to name but a few and must certainly be credited with knowing what the public wants. So evidently the public wants a naive, sentimental, uncomplicated tale with characters asked to do no more than speak simple dialogue and sing a song if necessary; music descended from the palm court school, with lyrics free of harmful sophistication; choreography in which energy replaces imagination. All these he and choreographer Alain Dehay have provided; and Jim Clay and Peter Higgins have added some really splendid scenery, protean and peripatetic to a degree and always ending up in a sound practical design.

The tale tells of young Tom Barnardo picking up young boys in the East End and taking them home for a bath, a meal and a supper, something that nowadays would have landed him in prison within a week. More fortunate than that, Barnardo is introduced into Lord Shaftesbury's house, where we encounter the obligatory hall scene, and where he meets Syrie Elmslie. He enthuses over the beauty of her name but pronounces it wrong.

The boys, who steadily increase in number, conspire to get the couple married. Time goes by. There is a Christmas scene in their beautiful sitting-room (the best thing of the evening) where Barnardo brings in his latest boy, Tosh. Subsequently Tosh's mother charges him with kidnapping. When her counsel has made a damning case, the Judge asks: "Has the defence anything to say?" By a thousand to one chance, Tosh has just come home from six months with a family in Canada, and Barnardo is acquitted. Ultimately some of the grown-up boys embark for the Boer War, wearing the uniforms of the First World War, some of them with their helts on upside down.

I felt sorry for James Smilie, who plays Barnado. Well-known in Australia, it seems, he still has his name to make here, and he won't make it in this. Fiona Fullerton has made a name, on films and television at any rate, but she will add nothing to it as Syrie, lovely as she is. I felt most sorry of all for the rows of young boys and girls, well-trained and confident, who shout their songs cheerfully, whether solo or in chorus, and if they don't always succeed in putting the words over I don't think this matters much. I hope they won't grow up believing that dialogue as well as song needs to be miked for audibility.

Grand Theatre, Leeds

Rigoletto

by ARTHUR JACOBS

Alongside the unfamiliarity of Delius's *A Village Romeo and Juliet* and Rossini's *Count Ory*, the English National Opera North is currently offering also the reliable attraction of Verdi's *Rigoletto*. It is a revived production but with a new cast—the role of Gilda being sung by Margaret Neville, remembered as a charming accomplished lyric soprano who became temporarily "lost" to London on joining the Cologne Opera Company nearly 10 years ago.

Gilda at her first entrance must seem—to the audience, as to her oppressed father—an angelic and consoling vision after the odious corruptions of court. It was hard for Miss Neville to sustain that image in a tight-drawn wig, haggard make-up, and drab dress. Vocally, too, "Caro Nome" was disappointingly and unevenly delivered. Only later in Thursday's performance did Miss Neville fuse musical artistry and dramatic response in a true realisation of the part.

The rest of this production conveyed, in something of the same way, an impression of patchiness and in particular of a weak start. Would Robert Ferguson as the Duke be able to overcome that distressingly over-loaded vibrato? Yes, he would: in the final act, particularly in the quartet, he was admirable. Would Michael Lewis, a physically forceful Rigoletto, show the vocal warmth which the part also needs? He eventually managed it in some degree, but still left me uneasy at the strain imposed on a youthful voice by such a notoriously demanding role.

Patrick Libby's staging is rather rough—literally and alarmingly so when Rigoletto shows quite unnecessary violence to Giovanna (Ann Hetherington) while instructing her in the care of his daughter. The court scenes are as unconvincing in action as they are ugly to the eye. But Maria Bjornson's design provides an unconventional and successful realisation of the scene at Rigoletto's and at Sparafucile's home. With the former we are in the house, so to speak, while the abductors climb towards us over a high wooden fence from the road beyond.

The cast includes a good Sparafucile (John Tranter), a good Maddalena (Linda Hibbard) an insufficiently strong-voiced Monterone. With firm but not subtle conducting from Clive Timms, and with bold, clear action emphasised rather than any psychological probing, the opera does not fail to make its effect—aided by the pithy force of Andrew Porter's translation, very well enunciated. This is a standard which the young company might accept for a breathing space, but never as a goal.

CRICKET BY TREVOR BAILEY

Botham: a question of timing

AFTER THE success and considerable interest aroused by the Prudential World Cup last summer, the two Prudential one-day internationals to be played this week must obviously suffer by comparison, as there really is nothing important at stake except the money.

They represent two minor skirmishes before the main contest later in the season. However, these two games provide another chance to see the champions of limited overs cricket in action, and some fresh faces in the 13-man squad, under a new and comparatively untried skipper, Ian Botham.

The West Indies defeated England in the World Cup final last year by 92 runs, a considerable margin by one-day standards, but it should not be forgotten that the outcome remained wide open until Richards and King savaged our makeshift fifth bowler, a combination of Larkins, Gooch and Boycott.

They also beat us without undue difficulty in Australia in the finals of the triangular tournament. Under perfect conditions they should win again, as they possess more high-quality stroke makers, a far more dangerous pace attack, and probably have just about the edge in the field. If one or more of their main batsmen should play a big innings, the chances of our players being able to gather as many runs in the overs available would be improbable, and against the West Indian pace men even more so. But on a slow wicket where the ball moves about, or where the bounce is a little uneven, the West Indies can be beaten as Essex showed last week.

The England squad correctly contains several spectacular run-getters, including the ebullient Botham, the enigmetic Gower and the powerful Gooch. Last Saturday I saw Gooch launch a spectacular assault against Surrey, on a far from easy wicket, for his fourth century in five first-class matches. The power of his strokes and the almost contemptuous ease with which he dominated the bowling were reminiscent of Gordon Greenidge at his very best.

The two newcomers to the international scene are the elegant Tavare, whose batting has been one of the happy features of Kent cricket so far this season, and Victor Marks, the Somerset all-rounder and former Oxford University captain. Victor is an outstanding fielder, good batsman with an excellent temperament and, as yet, a competent rather than a matchwinning off-spinner, more likely to bowl 12 economical overs in a one-day match than to capture three for a hundred on a good wicket in a Test.

The obvious advantage of opening the innings in our domestic cricket these days is again reflected by the fact that four of the chosen seven batsmen are openers — Boycott, Gooch, Willey and Lloyd. This means that two, presumably Gooch and Lloyd, will not bat in the position in which they have been making their runs.

Peter Willey, a good attacking, rather onside-conscious batsman, with a fine record in limited overs cricket, and also a useful off spinner, is from an impressive Northants batting quintet. Although the most talented is the South African Alan Lamb, many bowlers rate Cook as the best prospect for Test cricket from the other four.

The correct retention of Bob Willis, despite indifferent performances last summer and a poor winter tour, indicates the lack of challengers from our young fast bowling brigade. Although Graham Dilley is the best of them, it was interesting comparing him against Middlesex with the opposition opening pair, Daniel and Van der Bijl, who are in a different class.

I believe Graham has the ability to become an excellent quick bowler and with a couple of minor adjustments could establish himself as a true international.

The selection of Ian Botham to lead England in these two one-day internationals is interesting. I would not query the choice on the grounds of age, or lack of experience, merely of timing. Ian is a magnificent cricketer, the best all-rounder we have produced since the war, possibly ever.

My concern is what might happen if he is appointed for the two series against the West Indies, and, as is not unlikely, England loses both. Like a football manager, a cricket captain has to accept, often unfairly, the blame for failure.

OLYMPICS BY MICHAEL THOMPSON-NOEL

Questions over Olympic behaviour

AND SO to Moscow. One of the most curious features of the battle of hyperbole that marked President Carter's call for an international boycott of the Moscow Olympic Games was the absence of discussion over what countries will do when they arrive.

Will they parade their flags and sing their anthems in the customary way? Or will they encourage their athletes to shun the opening, closing, and medal ceremonies, and thus record on Soviet soil, arguably a more effective demonstration of disgust against the invasion of Afghanistan than merely staying away?

U.S. position

In the U.S. shortly before the Administration made it clear that under no circumstances would an American team compete in the Olympics, Dr. Zbigniew Brzezinski, President Carter's national security affairs adviser, spelt out the official U.S. position.

"We do not oppose the Olympics, he said. "It is the site we oppose. We have determined that we cannot permit business as usual in social, cultural, scientific or commercial activities.

"We can't say of sport that it is somehow immune. It's not logical, not possible. Worse, it is symbolically wrong, morally wrong, to hold this festival of peace in the capital of an aggressor-nation posing a threat of such strategic significance."

This view was countered by the U.S. marathon runner, Don Kardong. "What was the most effective use of symbol?" he asked. "The African boycott of the Montreal Games, which passed without a ripple, or the raised fist of Tommie Smith (the U.S. 200 metres gold medallist) on the victory stand at Mexico City in 1968, which is indelible in the memory of everyone who saw it?"

Rules

The U.S. Administration replied that "the International Olympics Committee has rules that penalise the athletes for political displays, and what would be dramatic on U.S. television would never be shown on Russian."

Nevertheless, discussion of how athletes should compose themselves in Moscow will intensify in the seven weeks remaining. It is here that Britain's attitude could be crucial.

In the gold medal table for the summer Olympics over the period 1964 to 1976, Britain stands 11th, with 16 golds, which ranks her as only a middle rate Olympic power.

However, in the view of some, it was the cast-iron determination of the British Olympic Committee to send a team to Moscow — in spite of great pressure not to do so by the Government—that played a role in encouraging virtually the whole of the Western European bloc, with the exception of West Germany, plus a significant proportion of Commonwealth and ex-Commonwealth countries, to go to Moscow.

Britain will not be represented in the yachting, hockey, equestrian and rifle shooting events. Otherwise the plan is to send virtually a full Olympic squad—240 athletes, plus 100 officials.

The athletes include three—Steve Ovett, Sebastian Coe and Daley Thompson—who were expected to win medals role long before a boycott was first rumoured.

The British Olympic Committee will discuss the question of British behaviour in Moscow at a meeting in London on June 19. The committee said this weekend: "It is fair to say that the British team in Moscow will behave with dignity.

Propaganda

"It will not contravene the Olympic rules, but neither will it allow itself to be used for propaganda purposes by the Soviets."

The Olympic organising committee in Moscow may have succeeded in its prime aim, namely, to over-ride the boycott call and attract enough of the world's athletes to pass muster as a quorum. However, in reality, its problems are only just beginning.

FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
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Tuesday May 27 1980

The pains of gradualism

THERE IS now growing dissatisfaction, not least among Government supporters, with the results so far visible from the economic and monetary strategy which has ruled for the last year.

In these circumstances, critics of official policy, whether monetarist or more traditional in their approach, are likely to get a more attentive hearing than for some time past. The forecasters at the National Institute of Economic and Social Research appear conscious of this fact, and in their latest review, so far from dancing on the graves of their more extreme monetarist opponents, they pose some quiet, tentative and in some ways searching questions.

It is unfortunate that the answer proposed—the institute's almost ritual call for an incomes policy—is likely to hog the headlines. Unless it is specified how the next attempt is to avoid the failures which have marked all previous efforts, this is in our view totally unhelpful. It is hardly worth saying that our problems would not be nearly so trying if the worst of them would go away.

However, in its analysis of the present outlook, the review does have something pertinent to say. Its central message is that a gradualist approach to our problems, relying on steady monetary pressure to reduce inflation, offers no kind of soft landing. On the contrary, it may entail grave long-term costs.

Straightforward

The reasoning is fairly straightforward. Wages, in the institute's model, are heavily influenced by the rate of increase in consumer prices—an assumption which has led to uncomfortably accurate forecasts of these numbers. At the same time, the Government is relying heavily on cash restraints in the public sector which imply increased charges.

The burden of adjustment is thrown upon industrial profit margins and investment. The corporate deficit will maintain a heavy demand for credit, so that interest rates are likely to fall only slowly, and after a long delay—a further burden, both directly and via the exchange rate, on manufacturing industry. The longer this regime is maintained the greater the cost in investment and long-term competitiveness.

This gloomy view of the medium term future does not, it should be stressed, rest on any very extreme pessimism about the immediate outlook. On the contrary, the review is a good deal less alarmed about the likely scale and duration of the immediate recession, both here and in the U.S., than most forecasters.

Nor does it blame our problems on monetary policy itself. A policy which would allow sterling to depreciate by 10 per cent over a year is examined and rejected: on the institute's model, this would do little apart from provoking worse inflation and a temporary worsening of

Unrealistic

Wages are therefore at the centre of the picture. Essentially the institute is arguing that the pressures which are maintaining unrealistically high real wages will soften the recession in the near future, but do lasting damage to the supply side of the economy in the longer term. We are eating the seed corn.

This analysis looks depressingly like reality and incomes policy is not the only alternative policy discussed. In one remarkable paragraph the review even flirts with the idea of an extreme monetary crunch of the kind recommended by Professor Friedrich Hayek—the "big bang" alternative to gradualism. This is rejected as impossibly risky, but the underlying thought remains, like the Cheshire Cat's grin: a quick adjustment, however painful in the short term, would be greatly preferable to slow strangulation.

It seems that a somewhat similar analysis, and especially a similar realisation that present trends point to a very sad picture of the mid-1980s, has inspired the new urgency about wages expressed last week by the Prime Minister and the Chancellor. Their proposed remedy does not sound as comfortable as talk of "incomes policy," but is no doubt more realistic.

What Ministers have come to realise is that while competitive pressures are already restraining wages in manufacturing, where many settlements are below the inflation rate, they have failed to impose similar disciplines in the public sector. It is cash limits rather than credit restraint which have proved ineffective. A confrontation of this problem is not a comfortable approach, but if it is pursued with determination, it could show that monetary policy versus incomes policy is hardly a full description of the available alternatives.

Hiatus in the Middle East

SINCE THE conclusion of the Egyptian-Israeli peace treaty 14 months ago the so-called Camp David process has moved only sporadically, spluttering like an old vehicle on the verge of a break-down. Arguably, it has made no advance whatsoever. With the passing of the May 26 deadline for the conclusion of the talks on autonomy for the Arab inhabitants of occupied West Bank and Gaza Strip, the contraption has ground to a complete halt.

Security

The talks that have taken place over the past year on Palestinian autonomy could hardly be characterised as negotiations. Only after President Jimmy Carter obtained a commitment from President Anwar Sadat of Egypt and Mr. Menahem Begin, the Israeli Prime Minister, that the exchanges should be intensified did they come to grips with the real issues, in particular security arrangements for the territories.

Predictably, Israel showed no hint of flexibility in its insistence that it alone should be the judge of its own requirements and, therefore, that security, internal and external, should be its exclusive domain. The meetings at Herzlia and Alexandria only served to emphasise what seemed crystal clear long before: Egyptian and Israeli concepts of autonomy are poles apart, quite apart from those of the Palestinians themselves.

Mr. Sadat's decision to suspend them was not only understandable but perhaps politically necessary also.

For its part, the Israeli Government seems happy to sit back, confident that neither Egypt nor the U.S. can abandon a negotiating process in which they have invested so much. Moreover, as it tightens its control over the West Bank and Gaza Strip, Mr. Begin seems assured that U.S. electoral considerations will preclude any pressure from Washington for Israeli concessions. His Government's attitude is almost certain to become more uncompromising following the resignation of Mr. Ezer Weizman, the Defence Minister.

Mr. Weizman was opposed to the Likud-led Coalition's more extreme and controversial measures on the West Bank. In itself the resignation of the Israeli leader who had built up the closest rapport with Mr. Sadat and his probable replacement by a hard-liner will be a blow to the prospects for the autonomy talks. At the same time, it will further weaken a divided, unpopular Government, increasing the chances of elections before the end of the year for which Mr. Weizman has publicly called.

Both Mr. Sadat and Mr. Carter may secretly wish for the early return in power of a more moderate and flexible Labour-led Government in Israel, which is more likely to negotiate a satisfactory form of Palestinian autonomy. That must be true also of West European Governments. Notwithstanding the request to them by Mr. Edmund Muskie, the Secretary of State, to refrain from any action likely to harm the Camp David process, they must consider what they can do to keep the Palestinian issue alive and what other possible framework might bring about a comprehensive peace settlement.

Europe's role

At this point sponsorship of a UN Security Council resolution amending, or supplementing, 242, to take into account specifically Palestinian political rights or self-determination would be unwise because of the risks of an American veto at a time when Western solidarity is at a premium. An explicit statement by the leaders of the Nine when they meet in Venice next month would do no harm even if they are unlikely to influence Israel.

Dr. Kurt Waldheim, UN Secretary-General, is one who believes a new vehicle will be necessary and that the West Europeans will have a role to play in it. No one should belittle the achievement constituted by last year's pace treaty. But Mr. Carter must surely be forced, sooner or later, to recognise that the related Camp David accords are insufficient and that the negotiating structure provided by them is too narrow to bring about a comprehensive Arab-Israeli peace settlement.

The question of South Korea's survival

BY CHARLES SMITH in Seoul



Elements in the power vacuum: President Choi Kyu-Hah, rioters in Kwangju, and Opposition leader Kim Dae-Jung.

SOUTH KOREA—the nation which until a year ago was boasting that its economy might soon overtake Japan's—has been forced to start thinking about whether it is going to survive at all. Survival seemed to be the point at issue last week when the population of almost a whole province went on the rampage in protest against a series of repressive measures announced by the martial law authorities in Seoul and rumours began flying of "unusual" North Korean troop movements on the military demarcation line. The rumours had become less alarming by the weekend and life in Seoul—now the world's eighth largest city and a place where wealth is conspicuously displayed—seemed to be largely back to normal. That does not alter the fact that, for a period of nearly one week, Korea appeared to be as near to the brink of catastrophe as at any time since the end of the Korean War.

Ironically the cause of the trouble can be directly related to past economic success. From the mid-1960s until 1979 South Korea grew and prospered greatly under a regime which combined a touch of democracy with a high degree of authoritarianism in practice and an all-out emphasis on rapid economic growth. When the founder of the regime, President Park Chung Hee, was assassinated last October by the chief of his own intelligence service the time seemed to have come for a switch from the dictatorial style of government of the late President to something more like Western democracy.

A timetable for constitutional reform was accordingly established and a start was made on dismantling some of the more obtrusive features of the Park system. For example the previously ubiquitous government intelligence agents were withdrawn from university campuses and schools. From the beginning, however, it was clear that a wide gap existed between advocates of "instant democratisation" and those in the armed forces and elsewhere who secretly wanted to continue with the old system.

During the past two weeks the would-be "democratisers" and the opponents of almost any change have taken their battle to the streets with results that have probably cost several hundred lives and may also have caused irreparable damage to the country's economy. This is all the more tragic in that neither group, in all probability, represents more than a small minority of the country's total population.

The Seoul University students who sparked off the crisis with two days of massive (and under the present system illegal) demonstrations in the middle of May were condemned as trouble makers by most ordinary people.

On the other hand the caretaker Government which replaced President Park last October made itself still more unpopular when it reacted repressively to what had been a largely peaceful show of strength by the students.

The Government's measures included the extension of martial law to the whole of South Korea, the banning of all political activity and the arrest of 25 prominent individuals some of whom may have had little or nothing to do with the student demonstrations.

The Government acted as it did because it was told to do so by General Chun Doo-Hwan, the chief of the Army Security Command (i.e. military intelligence) and the acting head of the civilian Korean Central Intelligence Agency.

General Chun is not only the most powerful among a group of generals who took over the top army positions in an internal putsch last December following the President's death. He was also extremely close to the late President and is known to have been outraged by the wave of revulsion against Park's policies which began after the assassination. Some of those arrested in the May 17 round-up seem to have been people against whom General Chun and his fellow generals bore a personal grudge, although many may also have been guilty of the charges of corruption or political incitement which have been levelled against them.

The May 17 arrests cleared the political decks in that two out of three politicians who had been expected to run for the presidency in direct elections, due to be held in 1981 were included in the round-up. One of the detentions—that of the prominent Opposition leader, Mr. Kim Dae-Jung—also had the effect of stirring up the latent regional tensions that exist in South Korea.

Kim is a native of Cholla Province in the south-western corner of the Korean peninsula whereas both the late President Park and General Chun were

The northern menace is *genuine and infiltration* may have been stepped up

born in Kyongsam Province in the South-east. Cholla was to some extent by-passed during the industrial development which took place under Park and its people were clearly hoping to make up for this setback under a democratic regime—especially under one headed by the popular and demagogic Mr. Kim. The dashing of these hopes through Kim's arrest set off violent demonstrations in Kwangju, the provincial capital of Cholla, which soon degenerated into virtual civil war after two brigades of (non-Cholla) special forces had been sent in to quell the disturbances.

The breakdown of law and order in Kwangju probably does not herald anything like a general uprising against the central government in Seoul, if only because the people of Cholla are not popular in the rest of Korea (not even in Seoul where they represent an estimated 15 per cent of the city's population). The Kwangju rioting could, however, spill over into guerrilla activity in the surrounding hill country, in which case North Korea could be presented with a tempting opportunity to meddle in South Korean affairs.

If this were to happen considerably more than the two divisions of South Korean troops (out of the army's total strength of 28) that have been employed in an attempt to restore order in Kwangju might be needed to handle the situation.

The martial law authorities showed signs of wanting to play up the North Korean threat in the first few days, no doubt in order to gain public support for the hard line they have taken in dealing with students and other protestors. This does not alter the fact that the northern menace is genuine; indeed there is some reason to believe that northern infiltration has already been stepped up to take advantage of the south's disorders.

Leaving aside the security threat in Cholla, the main effect of the army inspired emergency measures has been to create a political vacuum. The army strongman, General Chun, is not thought to possess either the ambition or the ability to follow in President Park's footsteps. In other words he is not likely to make the transition from periodically interfering in the government of the country to actually running it himself.

Thus Korea may continue to be ruled by a civilian government but one without democratic credentials and with diminished authority and prestige. President Choi Kyu-Hah, the caretaker Head of State who has been in power since directly after President Park's assassination, is a capable bureaucrat with little apparent taste for politics and no taste at all for the exercise of power. Sooner or later he may have to give way to someone with a more solid power base. But after the arrests of May 17 it is hard to guess who that person might be.

Neither of the country's existing political parties appears likely to be able to provide leadership. The Democratic Republican Party (originally formed as a base for President Park) lost its leader in the army round-up while the chairman of the opposition New Democratic Party, Mr. Kim Young-Sam, ironically seems to have lost prestige by not being arrested.

Both parties in any case tend to strike outside observers as factional groupings centred around powerful individuals rather than as genuine political parties with their roots in the Korean community. A party based on the new middle class of prosperous farmers and small businessmen which emerged under Park might provide a basis for a new Government. So might a party representing organised labour. But for the time being neither entity exists, or appears likely to come into existence.

The question marks over Korea's political future appear more disturbing if economic uncertainties are taken into account. Under the Park regime the country went all out for maximum economic growth, using exports as the main engine of expansion, but it paid the price for this from late 1978 onwards when inflation began to get out of hand and serious bottlenecks developed in various parts of the economy.

These were chiefly in light industries providing basic essentials for the home market and in the supply of skilled labour. During the past 18 months, the Government has retrenched, pursuing a tight money policy and aiming at a fiscal surplus, but it has paid the price with dangerously increasing unemployment. On top of that, inflation has continued because of factors, such as oil price increases, which are largely or completely beyond the control of the Government.

The new Cabinet of bureaucrats and retired army officers that took power in the middle of last week's disturbances is expected to relax credit restraints to some extent and to try to get the economy moving again after a period of zero growth in the opening months of 1980. But the task of getting Korea back onto anything resembling a stable growth path is not easy. One problem is that the country has lost its competitive edge *vis-à-vis* other "new industrial countries" such as Hong Kong, Singapore and Taiwan and is thus losing ground in vital export markets.

Another difficulty is that resumed growth may put intolerable strains on the balance of payments. Korea ran a current account deficit of \$3.9bn in 1979 and expects to be in deficit by more than \$5bn this year thanks to a higher oil import bill and to the negative impact on the invisible account of high U.S. interest rates. So far the Government has experienced little difficulty in borrowing to cover this deficit, but there are doubts as to how long this can continue.

A \$7.5bn foreign currency induction programme drawn up for 1980 includes around \$1.7bn worth of long term borrowing from private financial institutions of which roughly one-third had been completed when last week's political disorders began. The reaction of foreign banks to the upheavals was not clear (or at least not unanimous) in the immediate aftermath of the army crack-down. But some banks are said to be staying aloof from a series of syndicated loans being arranged for the five main Korean commercial banks until the political future seems more certain.

If the future of South Korea looks distinctly cloudy at present because of internal upheavals and uncertainties it is important to remember one external factor that could change the situation. This is that Korea must solve its problems or face the prospect of losing out to North Korea in the battle to decide on whose terms the peninsula should ultimately be united.

Competition with the North has fuelled the economic achievements of South Korea over the past 15 years and injected a dynamism into the national character which few other developing countries can match. There is no reason to believe that the South Koreans, as a nation, will tackle the latest set of problems any less vigorously than they did earlier challenges. The difference between today's situation and earlier awkward moments in the country's history is that patience, rather than energy, may be the quality most needed to ensure survival.

MEN AND MATTERS

Burke's goes international

No one could accuse Burke's Peerage of being behind the times. Its ambitions these days reach well beyond the titled denizens of the old country, and its researchers are already clambering up the family trees of China and Japan.

Meanwhile, volume II of its trilogy Royal Families of the World, just out, seeks to pin down who's who in the Middle East and Africa. Particularly as regards the Middle East, it is timely enough: the British have had close contacts with the Gulf for nearly two centuries, and yet remain in general profoundly ignorant of its nations and culture.

The £28 volume is a partial corrective, though purists might jib at the hordes of chiefs, sharifs, sheikhs, sultans, beys, and imams all given the Burke's stamp of royal authenticity. However, royalty buffs should get their money's worth in quantity if not in quality. The net has been cast over 30 countries now enjoying, or enduring in the recent past, a monarchic regime. It is a dwindling establishment. Today the governments of a mere 12 countries are headed by a royal family—four of them are within the boundaries of the Republic of South Africa.

The royal pedigrees are a mixed bag. The unlamented ex-Emperor of the Central African Empire, former Private Jean-Bedel Bokassa, is enshrined within the red covers claiming descent from one Dobogon Gbo Hosegoton, who, observes Burke's non-committally, "may have lived about the middle of the 17th century." Not a patch, really, on the imperial family of Ethiopia, which can be traced to "the alleged offspring of Solomon and the Queen of Sheba."

Surprisingly, it seems that the book was compiled in England mainly on the basis of writing letters to the relevant parties. Researcher David Williamson, who spent three years on the project, laments that "it is very difficult to get a response from a lot of these people—they are not genealogically minded, and a lot of them had no written language till Africa opened up in the last century. It is often difficult to know what address to write to."

"Got a light Mac?"

Saudi Arabia proved a particular headache. "They say," says Williamson with quiet desperation, "that there are between 2,000 and 4,000 princes. They are very cagey and they're not interested—they seem to take the view that 'we know who we are, so what business is it of yours?'"

Prison stick-up

I gather that Punch editor Alan Coren faced some novel problems last week as a result of the magazine being printed in France. (This is due, as they say, to a printing dispute.) The May 21 issue was printed with the date June 11. "They rang up and said 'zut' and 'ma foi' and all the other things the French say when they have mucked something up," says Coren. "We are printing on a very tight schedule. There was no time to run it again."

The solution turned out to be very simple. Convicts at a nearby prison were given the diverting task of sticking on 100,000 labels bearing the correct date. Readers with a taste for irony will be disappointed to learn that Fresnes goal does not contain a certain prominent raincoat manufacturer currently incarcerated in France who might have smiled at this chore.

Coren has been forced to print abroad for the last seven weeks, first in Belgium, now at Vitry, near Paris.

Snookered

Enviable as it must sound to own a full-size billiard table, getting rid of one is no easy matter. Robin Howard, president of the Timber Trade Federation, is in the unhappy position of owning a 12 ft by 6 ft table groaning with history and family memories, but with nowhere to put it.

"About the turn of the century my grandfather, a respected name in timber, was told there was a special job coming up, a table for the Prince of Wales, later George V." Howard *grandpère* duly supplied an "extra special selection" of Cuba mahogany, only to find that his bill was not met by the table manufacturers, Burroughes and Watts. The deal he eventually made was that Burroughes and Watts should instead build him an exact replica, which they did.

"We all played on it. I can remember during the war when we could hear the German bombers flying over us in Sussex towards London, and my father was making a big break . . . all very stirring stuff," says Howard, who is chairman of the family firm W. W. Howard.

Sadly the family house near Robertsbridge has now been sold, and the new owners have pressing alternative uses for 72 sq ft of space. "I phoned around a number of West End clubs, but with no joy. The ones that want a table have already got one, I think. I just missed out on the RAC though, by a fortnight. The idea was that we would offer it rent free provided they paid the cost of carriage. I even thought of offering it to Prince Charles, but I wasn't quite sure how to go about it." If forced to sell the table outright, Howard is thinking in terms of about £5,000: Cuba mahogany in those lengths is no longer obtainable.

Buckingham Palace is unclear what has happened to the original George V table: "There is one here, but we're not sure if it's the one you mean."

Bold front

Poland's dissident publishing house Nowa is mounting a vigorous campaign to free Bogdan Grzesika, one of its printers, whom the authorities insist on holding in prison despite the recent release of the publishers' director Miroslaw Chojecki.

Not content with dropping leaflets from tall buildings, and buttonholing Western publishers at last week's International Book Fair in Warsaw, Nowa sympathisers have just produced a T-shirt with a suitable imprint. There is some speculation as to how the authorities will react when someone dares to sport one of these T-shirts in public. Passers-by picking up protest leaflets have been known to have them snatched away by the police. Suppressing seditious clothing might involve more complex tactics.

To add insult to injury, the T-shirts bear the tag "Made in China."

Typecast

Someone at Cegos Management Development is typing herself out of a job. Or could it possibly have been one of those revolutionary word-processors which prepared the note telling me of the course next week on "The Roll of the Secretary."

Observer

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FINANCIAL TIMES SURVEY

Tuesday May 27 1980

WORLD BANKING

PART TWO: PART ONE APPEARED ON MONDAY MAY 19

The Western world's banking community is paying increasing attention to the consumer end of the business, where their are still many areas of potential development. This section of the survey examines these in detail, particularly the impetus given to marketing by electronics and other modern technology.

Gains at the retail end

By Michael Lafferty

IN SEVERAL countries around the world banks and financial institutions are showing increased interest in personal or consumer banking services. To some degree this reflects a switcb of attention from previously lucrative areas of wholesale banking now that lending margins are almost wafer-thin. But to a large extent it reflects new and increasing opportunities in the retail banking market-place, partly resulting from new technology.

As standards of living improve people tend to save more, spend more, travel more and many borrow money from time to time. All these activities can be facilitated by banking services and systems, especially payment systems such as cheques and credit and debit cards. In the past decade these systems bave crossed national boundaries in nrder to keep up with consumer demand.

Traditionally, many commercial banks have tended to look on personal banking as unexciting, but a necessary activity in order to provide a cheap and stable deposit base. Services such as cheque accounts were provided simply to keep the depositors happy. Such attitudes still prevail in many banks, including me or two of the big British clearers. These banks are finding the process of adjustment to the new world of retail banking very difficult.

Up to 20 years nrd so ago, only a restricted proportion of most countries' populations bad savings, or needed the services of banks. Most of today's big commercial banks grew up serving that sector of the population—broadly the middle and upper classes. As standards of living bave improved for the average working man some commercial banks bave responded by extending their services to the whole of the adult population. In many cases, however, commercial banks have remained the banks of the better-off members of society.

The gap in the market bas been bridged in different countries in different ways. In West Germany local savings banks bave grown up; in France co-operative banks have emerged as a powerful force, and in other countries like Holland Post Office-based giro systems bave been developed on a considerable scale.

Today banking services are available to and are regularly used by almost all the adult population in countries like Germany, the Netherlands, France and the U.S., in the sense that people have bank current accounts. Here the UK is a notable exception among developed nations, because only around 55 per cent of the adult population in the UK is banked. This oddity is closely linked with the continued payment of weekly cash wages to 80 per cent of manual workers in the country. But it is also clear that the major British banking institutions have not sbown any significant interest in the Briish worker until now.

Priority

There are indications that tihs may be on the verge of changing. Midland Bank recently became the first of the British commercial banks to launch an advertising scheme specifically aimed at working-class people. Barclays Bank has made it clear that it regards the penetration of the unbanked population as a major priority for this decade. At the same time increased interest in the British retail banking market has come from U.S. banks like Citibank, Bank of America and First National Bank of Boston. Altogether, it seems likely that Britain will be one of the most interesting markets in the world for retail banks nver the next 10 years.

Citibank, the New York-based international bank which ranks about No. 2 in the world, provides a remarkable contrast with nther commercial banks in the retatil banking field. Until the early seventies it had a profile very much like that of most other big banks in the personal banking area. Corporate and personal services were often sold through the same nutlets and by the same people.

All of that changed in 1975 when Citibank decided "to make a business" of consumer or retail banking. Consumer banking services were then separated and marketed through separate outlets. An integrated wnrldwide retatil banking division was created, with six reginns, just as fnr wholesale banking.

Citibank found that there was a familiar pattern to retail banking around the world. It was able to use experience gained in New Ynrk in its efforts to get into markets in Europe and elsewhere. One of the first actions of Mr. John Reed, the man in charge of the whole operation, on taking up his position was tn seek a board position with a major U.S. corporation that was heavily retail-oriented. He ended up at Philip Mnrris.

Citibank reckons it is the world's largest international retail bank. A close second may well be Barclays which, apart from its UK nperations, is now well established in retail banking in places like the U.S., Continental Europe and South Africa.

Typically, most of the big commercial banks of the world are primarily and nften solely involved in retail banking in their home markets. But there are several exceptions. Lloyds Bank of the UK bas branch banks with substantial retail business in California and New Zealand. Hongkong and Shanghai Banking Corporation now controls Marine Midland, a bank with a large retaitl business in New York, and National Westminster is in a similar position, having recently acquired National Bank, of North America, a brancb bank in New York State.

Citibank seems tn be the only major commercial bank with an international retail banking divisinn based on separated consumer banking services in all market places. In the UK, Midland Bank is following a similar route in converting its typical bank branches into retatial service outlets.

While only a small number of commercial banks bave entered retatil banking on an international scale, nther developments have taken place to make retatil bank payment systems international. The process started with the credit cards nf Visa and Mastercharge, each of which originated from Bank of America and Citibank. Today these systems are franchised worldwide on a co-operative basis. They are becoming more than plastic card systems, as both iVsa and Interbank, enter the travellers' cheques market.

Response

It is partly in response to these two payments systems organisations that the "Eurocheque Organisation" bas emerged. Legally there is no such thing as the "Eurocheque Organisation" similar to Visa nr Interbank. But the reality is that a number of Continental European banks, led by West Germany's mighty Deutsche Bank, run an organisation which today embraces not just the Eurocheque cheque guarantee card system, but includes the Eurocard travel and entertainment credit card, and the European Travellers' Cheque, which is based on the purchase of the T/C business of Thomas Cook of the UK.

What Eurocheque, Visa and Interbank do demonstrate is that retail banking can and does bave much in common all round the world. Whether Germans, Japanese or Americans, people the world over have very similar needs when they travel. They want to be able to behave as much as possible as if they have not left their own country; they want to be able to make payments without a fuss or undue delay and they want peace of mind.

The payment systems of Visa, Interbank and Eurocheque are, in varying degrees, cashless. Yet cash remains the most popular method for payment in all countries around the world. Even in the US, the home of the plastic credit card, the cashless society is still some decades away. The greatest change is likely to come with the introduction of point-of-sale terminals in retail stores. Once this happens on a significant scale the advantages of cash over electronic payment systems will probably diminish significantly.

CONTENTS

Era of electronics and the plastic card

PAYMENTS SYSTEMS

ALAN FRIEDMAN

THE WORLD of international retail banking has entered a new era. After centuries of barter trade end tbe development of national currency systems, a revolution spurred by technology is creating vast new areas of electronic banking.

These include a bost of credit and debit cards, automated teller machines (ATMs), cbeque cashing cards, travellers' cheques and travel and entertainment (T and E) charge cards.

It bas *been* estimated *that* there are currently no fewer than 743m cards in circulation around the world. In the global struggle for customer loyalty and trade, a few leviatbans such as Visa and Interbank are engaged in a battle whicb can only be described as fierce.

Visa, the blue, wbite and gold card organisation, whicb claims nearly 80m cardhnlders worldwide, started as an offshoot nf the California-based Bank of America. In 1958, the "Bank-Americard" was offered throughout California for the first time. The programme succeeded so well that by 1966 the bank formed a subsidiary to license banks outside California to operate affiliates. In that year eight American banks were licensed and in Britain Barclays Bank agreed to issue the cards nnder the name "Barclaycard."

In 1970 the system was moved from Bank of America administration to a membership corporation owned by hank users. By 1972, an international committee representing card licensees met to consider the possibility of an international organisation to administer the blne, wbite end gold cards. As a result, Ibanco Limited, began operating in October 1974.

The name of the group was cbanged to Visa in 1977 in order *to achieve* international brand recognition. This was followed by steps to Integrate the Visa authorisation system worldwide. Member banks contribute a usage fee, based on a percentage of turnover. But the Visa administrative system is now a non-profit owners' collective.

Interbank (*Mastercard*) is the otber major pyaments organisation. Like Visa, It has about 12,000 banks around the world attacbed to it and its central role is co-ordination, marketing and new product development. Also like Visa, it is usable in about 3m outlets around the world. Global card membership is 76m, the majority in the States (61m).

Mr. Russell Hogg, the chief executive of Interbank, likes to point out that his nrganisation is not just a credit card company, hnt a "family of credit prodncts."

Component

In Europe Interbank is related to the Eurocard system, one of the component parts of the "*Eurocheque Organisation*"—the major European payment systems gronp. In Britain the Access card, jointly administered for several banks, accounts for 4½m Interbank cards.

Access is the main UK label, but *Interbank uses three* in total—Mastercard, Access and Eurocard—and these three will soon appear together on the front of all cards.

The "Eurocheque Organisation" is the umbrella gronp for a fonr-part system which *inclndes* the Enrocbeque, the Eurocard, the European Travellers Cheqne and in future, a common European cash dispenser network.

Dr. Eckart van Hooven, a colourful and controversial figura on the world retail banking scene, helped to found the European system from bis base at the Deutsche Bank. He felt that a European payments system should be primarily chaque-based.

It was his belief that the use of a cbeque guarantee card and a cbeque limited to Europe would reduce the risk of bad debts and frand in the banking system. So In 1968, the Eurocheque system was started. There are oow separate Brussels-based Secretariats for Eurocheque and Enrocard and it is hoped to unify these in the future.

Another major payment systems organisation is tbe American Express group. This is a travel and entertainment (T and E) plastic card issuer with about 10.5m cardholders worldwide. It is issued in 23 currencies and is used principally as a cash substitute rather than a credit facility. American Express exacts stringent financial criteria from its cardholders and serves an up-market clientele around the world. American Express also leads the international travellers cheque business, with more then half of the world market.

Until the spring of 1978, American Express dominated the world market along with Bank of America, Citicorp, Barclays and Thomas Cook. The last provided scattered competition in different parts of the world.

In June 1978, the association of banks that issued Mastercbarge credit eards announced that it would issue a travellers cbeque to complement its card. Citicorp, a member of Mastercharge, immediately sued Ioterbank on tha grounds that it would bave an unfair advantage in seeking to sign np other Mastercharge members. But this legal action was recently dropped and Interbank is going ahead with plans to introduce a travellers' cheque by next year.

Visa entered the travellers cbeqne market last year and predicted *confidently that* it would achieve a 40 per cent market sbare within five years.

The European response to the fragmented travellers' cheqne market was to buy out the Thomas Cook interests and proceed with a "European Travellers Cheque." This programme is now going ahead as a Europe-wide answer to wbat is commonly regardad, particularly in German banking, as a U.S.-dominated market.

Between the European T and E card, cheque guarantee card and travllers' cheque, there is a fair amount of somatimes emotional competition with the Americans. A formal "European Council for Payments Systems" was recently formed and a declared intention is to strive for a "pan-European policy and system."

On a global acale, cash dispensing machines are difficult t oco-ordinate. Visa cards are being fitted out with the necessary magnetic strips so that Visa-franchisers such as Barclays Bank can soon design the cards for use in ATMs. But officials at Mastercard/Interbank admit that this usage may pose a problem for them since Access in Britain is the child of several clearers and tha U.S.

In terms of tha international competition, however, the payments situation is complicated by several factors. In the States, for example, the pervasivve concept of "duality" bas meant that most U.S. banks issue both the Mastercard and Visa variety. In Britain the Visa Barclaycard is run by just one bank while the Joint Credit Card Company services Midland, National Westminster, William and Glyns and others with the Access card, an Interbank card.

Mr. Dee Hock president of Visa International, has taken full part in the burgeoning debate between European bankers and Americans on proper international payment systems. Ha recently said that European criticism of Visa was "emotional, misleading propaganda."

He denied that Visa was strictly a credit card organisation and said that it was not solely American. Commenting on European allegations that the Visa system was too coatly, he said that members paid only *1/80 of per cent of their sales* volume.

But his comments did not assuage European criticism. Dr. Eckart van Hooven of the Deutsche Bank countered: "At this staga a hypermodern paymeots system is not the best vehicle for the vast majority of our European consumers."

Dr. van Hoover's words are sympotomatic of a larger contest in the field of payments organisations, a contest now moving into high gear. In the varioua fields *of bank cards*, cheque cards, travellers cheques, T & E cards and cash dispensing machines, the battle has just begun.

Eurocheque points the way

CHEQUE GUARANTEE CARDS

ALAN FRIEDMAN

"IN OUR struggle to achieve a Europeen mone*tary system*, the Eurocbeque guarantee c[illegible] network Is the closest we h[illegible] yet come to a unified Europe." These are the words of a prominant German banker, one of the activists in the campaign to spread the cheque guarantee-card *gospel*.

With approximately 30m chequa guarantee cards in circulation in Britain and on the Continent (some 14m in the UK), there can he little doubt that cheques remain the main non-cash payment system in use *today*.

But the concept of guaranteed facilities is not new at ali. Over one hundred years ago, selected bank customers were issued letters of credit when they travelled from bome.

For the 19th century businessman *travelling* from St. Petersburg to Antwerp, the letter of credit promised the bolder a cordial reception at affiliated banks where he could draw funds to pay for bis expenses.

In Britain it was the Bill of Exchange Act of 1882 which led to the widespread use of cheques. But the idea of a cheque guarantee card did not come into vogue until the late 1960s. Informal means of identification such as driving licences and credit cards were used until about 10 years ago.

Barclays Bank did not introduce the cheque card facility as part of its Barclaycard service until 1974. At that time there was a £30 limit. This was raised to £50 in 1978.

In the 1960s, however, largely at the urging of the Deutsche Bank in Frankfurt, plans were laid for a Europe-wide system of cheque guarantee cards, mainly to avoid a proliferation of individual bank cards. In 1965, the Société Générale de Banque of Belgium introduced the first cheque guarantee card on the Continent, the "Carte G."

By 1968, at a meeting in Paris at the offices of the Association Professionelle des Banques, the name "Eurocheque" was proposed for the first time. In that year, the system began operating in the Federal Repnblic of Germany and tha Benelux countries.

Four years later, the first uniform Eurocheqne card and a uniform Eurocheque were introdnced. These uniform cheques allowed a customer to write cheques in several European currencies.

Tbose countries whicb both issued and accepted uniform Eurocheque cards and cheqnes became known as active countries. Countries such as Britain and Norway, which accept the Eurocheque but do not issue it, are known as passive countries.

The Eurocheque natwork today encompasses 39 countries in Europe and *around the* Mediterranean. According to the Deutsche Bank, there were 72m cheques cashed last year by bolders of either the Eurocheque card or of a national bank card with the "EC" insignia.

Although British banks now accept uniform Eurocheqnes, the UK remains outside tha "inner circla" of the Eurocheque working group. This working group meets twice a year and has an administrative Secretariat based in Brussels. There is no formal Eurocheque constitution ao the decisions of the working group tend to govern if any change is needed.

It is a system which works surprisingly well. There are some 200,000 European banking offices which accept the Eurocheque and the non-banking sector bas been opened up as well, even in Britain and Ireland.

A few weeks ago Jugobanka, the Yngoslav bank, announced that all Yngoslav banks will soon be *joining* the uniform Eurocheque system. It is already possible to write Eurocheques behind the Iron Curtain and one can even write a rouble Eurocheque in Moscow.

But the Eurochequa system is part of a broader strategy which has been masterminded by a group of European bankers including Herr Dr. Eckart van Hooven of the Dentsche Bank.

Because of his beliefs that consumer credit should stem from the banks, Dr. van Hooven would like to see the Eurocheque rather than credit cards as the main payments medium. His goal is to see all European conntries in the "active" category of Eurocbequing.

One Belgian banker recently predicted that Britain will adopt the uinform Eurocheque as an active issuer within tha next fiev years.

Bitter

Bnt thia optimistic forecast is not necessarily shared In British banking circles. Barclays, for example, still has a bitter taste In its mouth because of a 1977 conflict with the Eurocheqne committee.

The basic Eurocheque philosophy conflicts with major International cradit cards such as Visa or Interbank/Mastercard. So the Eurocbequa working gronp was not pleased when Barclays displayed the "EC" insignia on the front of its Visa Barclaycard.

Dr. van Hooven explained: "We felt that Visa did not fit with onr system. So Barelays agreed to remove the "EC" and to issue cards aeparately for cheqne cashing on the Continent."

Barclays did so and currently bas around 100,00 separate "EC" guarantee cards in circulation.

The differences extend beyond this particular issue. Visa, the international credit organisation, has bad a running feud with the *cheque-orientated* European bankers.

Mr. Joao Ribeiro da Fonseca, vice-president of Visa for Europa and the Middle East, complained that the Eurocheque system prevents customars from baving a "free cboice." "Eurocheque is doing what they can to prevent competition in the market. We don't see Eurocheque as a major payment system," he said.

Dr. van Hooven expressed the view that there should be no competition in the European payments system. "We want to keep costs down for our customers. A credit card involves an expensive technical system. A cheque card fits in with the banking network," he said.

The debate about costs is difficult to settle, but it is clear that Eurocheqne will face competition from the Americans. Says Dr. van Hooven: "If Visa thinks that they can be the payments system in Europe, let them try."

The cheque guarantee card debate is limited to Europe because the concept does not really exist in North America. Cheques carry a slightly pejorative connotation in the States and are not in widespread use for retail purchases.

The most approximate U.S. cheque card is a card issuad in conjunction with U.S. current accounts for use in cashing a cheque at any branch of a particular bank. But this is the limit of such cards. U.S. banks also offer "lines of credit" which provide some overdraft facilities. But in the wake of President Carter's anti-inflation programme, these ceilings have been lowered significantly.

It appears that in these matters Europe will remain tha centre of attention for some time. The ambitious Europrogramme devised by bankers on the Continent is moving forward, but not without soma resistance from international credit card advocates. Britain, meanwhile, has still not joined the uniform Eurocheque issuers' club and it may be soma years before this happens.

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Futurist view of one all-purpose card

CREDIT CARDS

ALAN FRIEDMAN

THE U.S. was the birthplace of the credit card and it remains the leading country in terms of usage and number of cardbolders. With more than 200m cardholders, the Americans are the ultimate connoisseurs of plastic credit.

Following a distant second, the UK has aronnd 10m cardbolders among the major organisations. On the Continent, the numbers are even smaller.

Bnt if the development of plastic mnney was an American phenomenon, it has rapidly becoma a worldwida activity. The 1970s saw a plethora of new carda nn the global market, from international franchise cards like Mastercard to tiny in-store carda and even non-bank cards such as the Britisb Airways/Visa card.

There are already 14 major types of consumer cards, but three stand out as leading examples. The credit card is revolving credit facility, usually entailing some interest charges and commonly available for casb advances as well as store purchases. It generally has an npper limit, calculated on the basis of a multiplier of the amount pnt into the account eacb month.

The debit card is not in hroad use in the U.S. and does not exist in Britain, but is available in some countries on the Continent. It is a purcbase or cash card which is directly linked to the customer's current acconnt rather than to a credit facility. The closest approximation in Britain is tha automated teller machines (ATMs) which dednct withdrawals from current accounts.

The travel and entertainment (T and E) card is a charge card, not a credit facility. There is no credit ceiling and users are generally required to repay funds by the end of each month. If they do not, they may be subject to special interest or penalties.

Customers normally receive tbe credit and debit carda without any extra expense. The T and E card usually entails an initial fee and annual membership charge. Financial criteria needed to obtain T and E cards are usually more stringent than those required to open a credit card account.

The world of bank-related major credit cards revolves about two organisations: Mastercard/Interbank and Visa.

The American Mastercard label is tied in Europe to Access in Britain and Eurocard (a T and E card) on the Continent. Mr. Russell Hogg chief executive of Interbank explains: "We don't try to tell Access or Eurocard how to do business. There is a totally different cultural approach to credit cards and chequing and we have to be sensitive to this."

Mr. Hogg, who has been head of Interbank for just three months, is making a serious effort to co-ordinate relations with his European partners. This will be necessary in view of the strong "Europeanism" which has coloured the credit card debate.

Dr. Eckart van Hooven belped to father the Eurocard system 15 years ago. As a board member at the Frankfurt-based Deutsceh Bank, Dr. van Hooven has been an ardent advocate nf cheque-based credit rather than plastic cards. His views bave reflected the German resistance to major credit cards as costly to operate and inflationary.

According to Dr. van Hooven, the Eurocard (circulation around 450,000) is a T and E card because the basis of credit should be through chequing. "The American credit card system is a catastrophe. We feel that consumer credit sbould remain with the banks. The Americans have forgotten this and everything is ont of control. Their degeneration of consumer credit has inspired inflation."

Mr. Hogg at Interhank says that ha is willing to co-operate with the Eurncard system. He and Dr. van Hooven are in agreement on the need to have both the Mastercard and Eurocard insignia on all Interbank cards so that there can be global recognition. Difficulties in this area have plagued Interbank recently and this is wbere the competition takes its cue.

Mr. Dee Hock is president nf the San Francisco-based Visa International group, the worldwide franchise organisation wbicb grew from its original Bank of America operation in California. "We don't think we bave any real competition worldwide. American Express competes a sa T and E card. Cheques compete as payment devices, be said.

As evidence of the inevitability of the credit card over cheques, Mr. Hock says that in 1979 Visa grew 76 per cent in terms of European volume. He claims that "there is a strong German-dominated attempt to enforce Eurochequing" and says that only a "common identity worldwide" can succeed.

At Barclays Bank, the Visa member in Britain (with 5.1m cardhnlders), general manager Brian Pearse agrees that chequing growth is less dynamic than cards. "Britain is becoming much more credit card conscious. Barclaycard has grown at 15 per cent per annum in recent years while tbe number of cheques is growing at 6.7 per cent." He points out, however, that cheques start from a higher base.

Barclays bas been active in pursuing a variety of credit card programmes in Britain, mirroring the general trend in tbe States. One of the more controversial arrangements is the Visa-Barclays "blue band" programme. Under this, British Airways and other non-bank organisations can offer a Visa card with their company name on it.

The goal of this programme is ostensibly to foster customer loyalty, but a British Airways/Visa card can be used to buy any kiod of airline ticket or even groceries in a London supermarket.

Barclays defenda tha programme hy saying that banks are in business to lend money. It views the non-bank cards as another way of lending funds.

Barclays also administers some 27 in-store systems under which stores like Habitat or Co-op can offer revolving credit cards to their customers. But this programme, similar to one offered by Access, only accounts for 100,000 cardholders.

With a total of 5.2m cardhnlders (Visa, non-bank and instnre) and a Barclays current account base nf 6m, it is possible that saturation is another motivation fnr new and innovative programmes.

Access, which is administered for National Westminster, Midland Lloyds and William and Glyns, has a potential customer hase of 15m and only 4.5m cardholders. Mr. Peter Stroudley of Access commented: "By the end of the 1980s we'll have more Access holders than Barclaycard."

His prediction echoes the words of Interbank, wbere Mr. Hogg promises new credit cards including "major pnrchase" cards which may allow higher credit limits or none.

The only no-limit cards presently available are the T and E cards such as American Express. Of the approximately 15m T and E cards around the world, American Express comprises two thirds. Diners Club has about 3m, Carte Blanche just under 1m and Eurocard 450,000.

Mr. Thomas Meyers of American Express believes that his company will continue to grow in the 1980s because it reaches a more affluent part of the market. "We are a charge card, oot a revolving credit and credit guidelines don't hit us," he said.

American Express plans to nffer a series of new services in the next few years, including a driver security plan, universal credit card registration, emergency funds transfer and a special rate for holders past the age of 65.

All the evidence suggests that credit and debit cards will continue to grow in the 1980s and 1990s. The next innovation, possible in Britain and the States by 1985, will be the point-of-sales terminal. This will allow customers tn use a card directly in a special terminal located in department stores or supermarkets. But tbe cost of development of this system could be prohibitive until the banks and retailers wnrk matters ont.

In 20 years, tbough, the revolution of electronic fund transfers may well be staggering. In the year 2000, the combined credit/debit card may come into its own. Mr. Peter Stroudley of Access describes the possibilities: "The customer will bave an account at a central location. His salary will be paid in and when the account is in credit, interest will be paid. All standing orders will come off this account. When in debit, there will be interest charged.

"The combioed card will be usable in restaurants, hotels and atores. It will also be a cash macbine card. A personal identification number will yield cash or automatic statements. Credit will be authorised around the world by satellite transmission. Finally, there may be a major purchase card which could even arrange an automatic bank loan for certain purchases."

This may sound like science fiction, but the credit card experts view it is entirely feasible. The international competition meanwhile, is botting up. The stakes are high and the technology available. It may be only a matter of time.

Development of the automatic teller

CASH DISPENSERS

IAN RODGERS

CASH DISPENSING machines started life in the 1960s as a source of money outside banking bours, hnt they are rapidly evolving into an all-hours, all-purpose substitute for a bank teller. Throughout the industrialised world more and more of tha new multi-function machines, called automatic teller machines (ATMs), are being installed. Even banks which eschewed the original simple cash dispensers as gimmicks are moving to ATMs.

For some it is mainly a matter nf cost savings. Britain'a Barclay's Bank estimates that 100 ATMs will do the work of 80 tellers and is experimenting with ATMs within its brances as well as outside. For others, the main motive is a marketing one.

"We see the biggest value of the ATMs in tha added aervice we can provide to customers," said Mr. Richard Kovacevich, senior vice-president and head of tha New York banking divisio nof Citicorp. "Most New Yorkers bave accounts at three different banks. We think the ATMs are very beneficial in attracting more deposits and convincing customers to give us more of their business." Citicorp believes it has the largest ATM network in the world, with 450 terminals installed in the New York City area.

Mr. Kovacevich doubted that there was much immediate cost saving in the installation of ATMs. "Just because you put in 450 machines doesn't mean you are going to sava 450 tellers. In fact, we have had to hire more tellers because of the growth of our business."

Typically, the U.S. leads the world with at least 10,000 ATMs installed and many more on order. In this field at least, Britain's banks are surprisingly up-to-date, with some 460 extremely accessible machines installed and the number likely to double by year-end. Other countries that have moved quickly to ATMs include France, Sweden, Canada and West Germany.

Typically, an ATM is capable of performing most teller functioos — accepting deposits, providing an account balance report, transferring funds from one account to another and taking orders for cheque books as well as the principal cash dispensing function. (Citicorp has one ATM that dispenses travellers' cheques instead of cash.)

Not all banks offer all these services on their ATMs, bowever, and there are significant differences in the ways the services are managed and preseoted to the customer.

The most common system operates 24 bours a day and enables the customer to withdraw a pre-set maximum amount of money within a set period as well as performing any number of other functions, all on insertion into the machine of a plastic card that has an identifying magnetic strip. The customer verifies his identity by keying in a secret personal number. The ATM may or may not be one-line, that is, directly connected to central computer account files. Since withdrawal limits are preset, there is no need for the macbine to check before delivering the cash that the customer has funds in his account.

The most significant departure from this general approach is the one adopted by Britain's Lloyds Bank. Lloyds bas huilt a totally on-line system and permits the customer to withdraw as much money as he likes as long as the computer reports that there are sufficient funds in his account.

"We are fairly original in what we are doing here," Mr. John Dunn, general manager of Lloyds management services division, says, "but we think this is the safest, most secure way of doing it. We ca ngive a person a card irrespective of hia credit rating."

Another advantage is that Lloyds can use basically the same system in its branches that it uses through the wall. Indeed, 650 of the 850 machines so far installed are inside branches.

The disadvantage is that the computer has to go off-line at night and on Sunday to perform othe rjobs and so Lloyds' dispensers operate only between 8 am and 9 pm Mondays to Saturdays inclusive. "We may extend thia alightly, but we felt it covers the bours most people need cash." Mr. Dunn says.

Banks bave also taken differing approaches to locating their ATMs. For the most part they are through-the-wall of the bank branch, but to an increasing extent ATMs are turning up in shopping centres, transportation terminals and other high-density locations. However, in some countries, off-premises locations are prohibited.

So far, there bas been little attempt by banks and other financial institutions to pursue new ATM developments together. Barclays and Lloyds are experimenting separately with a simple, cash-only variation of tha ATM for use in braoches. The machine is placed between the customer and the teller and activated by the customer ATM card. Provided that the machine authorises a withdrawal, tbe teller passes over the cash. The idea is to avoid the creation of a cheque or other paper voucher.

One significant step towards standardisation was the adoption by Visa a year ago of standard specifications for encoding a magnetic stripe on its cards. Visa also decided that all cards issued starting this year would have the new stripe on them and the conversion would be completed worldwide by April 1, 1982.

This does not mean, of course, that all cash dispensers will accept VISA cards nr that banks not participating in the VISA programme will adopt Visa's specifications for magnetic stripe eocoding. Many bankers remain to be convinced that there should be a connection between credit cards and the cash dispenser card. "It is one of the options," said Mr. Paul Baguley, seoior project manager in the domestic banking division of National Westminster Bank.

Later this year Barclays' dispensers will be able to accept Visa cards for withdrawal against the Visa account. Citicorp gets around the problem by allowing customers to make deposits from their Visa credit account to their bank acconnt and then withdraw cash by using their ATM card. Lloyds provides a special versio nof tbe Access credit card that can be used in its cash dispensers.

Several European banks have been having discussions abont taking a common approacb to ATMs but so far there bas been little progress. At a national level German banks agreed last May to take a common approach using the Eurocheque card to activate ATMs, but in some other countries installation of incompatible systems is already well advanced.

Fresh competition may lead to shake-out

TRAVELLERS' CHEQUES

IAN RODGERS

ONCE CONSIDERED doomed by the advance of credit cards, the $300bn-a-year travellers cheque business has suddenly attracted new competitors and may be on the verge of its first major shake-out in a century.

In America Interbank, the licensor of Mastercard, is finally about to join its main bank card rival, Visa, in launching its own brand of travellers' cheques. In Europe Barclays Bank has thrown in its lot with Visa while Midland Bank has agreed to sell 80 per cent of its Thomas Cook subsidiary to a group of European banks with a view to issuing Thomas Cook "Euro-travellers' cheques" in several new currencies.

A period of cut-throat competition is expected, with the most bitter battles occurring within the Visa and Interbank groups as member banks compete with one another to sell the same product.

Another early battleground could be France. Breaking with its traditional policy to operate alone, American Express had agreed to issue French franc travellers' cheques in partnership with three French banks. France could also be the launching pad for the Euro-travellers' cheque as the six banks involved have already been named and a cheque design published

The opening salvo in the current round of hostilities was fired by Interbank when it announced two years ago that it would launch a travellers' cheque to complement its bank card.

Citicorp, a member of the Interbank group, immediately sued Interbank, alleging it would have an unfair trading advantage over Citicorp within the group. The legal action effectively stalled Interbank in its tracks, member banks being afraid to sign up for fear of becoming entangled. However, the aborted launch sparked Visa to issue its own travellers cheque, and Visa's entry, in turn, caused the Europeans to join forces.

"The object of the Euro-travellers' cheque," Dr Eckart van Hooven, a director of Germany's Deutsche Bank, explained *at a conference in* March, "is to prevent the market from being monopolised by non-European suppliers." All German banks have been enthusiastic promoters of the Eurocheque concept, not least because Germans travel abroad on *a greater scale* than other nationalities.

Earlier this month Citibank withdrew its legal action against Interbank because Interbank has decided not to be an issuer of cheques itself. Rather, following the Visa approach, it will license any of its 12,000 U.S. member banks that wish to become issuers.

American Express still dominates the market, with an estimated 50-60 per cent share. Citicorp and Bank America are second and third, although it is not clear in which order, and Barclays and Thomas Cook are fourth and fifth, although their order is not clear either. About 75 per cent of sales are in U.S. dollar cheques, with sterling a significant second.

People who buy travellers' cheques are in effect giving the issuer an interest-free loan which the issuer then invests as profitably as he can, based on his estimate of how long he will retain the money. At the end of 1979 American Express had $2.3bn of travellers' cheques outstanding.

However, it takes a long time to build up a profitable float because most cheques are cashed fairly quickly. Meanwhile operating costs are high.

A few years ago many thought that the market would shrivel as credit and bank cards became more widely used. But the entry of the two largest bank card issuers would seem to confirm other issuers' claims that the market is still growing rapidly, perhaps at 20 per cent a year.

The main way issuers compete with each other is in the terms they offer their selling agents, usually other banks. The variables are share of commission, discount on volume and deadlines for remittance (letting the agent use a bit of the float). Contests for bank tellers are used in some markets and Citicorp *floated* the idea a few months ago of actually paying interest to the travellers' cheque holder, although this would be difficult to administer and was widely interpreted as a red herring. Visa has tried to attract banks to be agents by *offering* to print the bank's name prominently on the cheque.

It is difficult to get a feel for just how tough competition is these days. The combatants tend to hide behind the usual euphemistic phrases. "Competition has got a bit more severe in North America in the last few months," Mr. Patrick Bowden of Barclays says. "I think there is room for everyone, although there may be some changes in market share."

Abandoned

Mr. Micheal Lively, president of American Express travellers' cheques claims that "Visa's entry hasn't been extraordinary in terms of impact. It is rather modest so far but that is not to say that it won't be substantial in the future. We don't feel any more pressure on margins than in the past five or six years." Mr. Dee Hock, the president of Visa, has predicted that Visa will take 10 per cent of the market in 1980, which should not be too hard since Barclays alone is in that vicinity already. Mr. Hock has also predicted that Visa would have a 40 per cent market share by 1985 and even Barclays' Mr. Bowden admits that is "an optimistic forecast."

Mr. Jeffery Neubert, vice-president of Citicorp, said competition has been tough for a long time. He recalled that Thomas Cook two years ago took away Citibank's largest U.S. agent, the American Automobile Association. "We were asked to bid against Thomas Cook but we decided not to because on terms like theirs it would not have been profitable for us."

Competition within Visa could also be stiff. Basically any bank can be an issuer of Visa travellers cheques, which means that it prints the cheques, manages the sales, and of course collects the float. And there are no territorial operating restrictions. Barclays, for example, is very actively recruiting U.S. banks to be sales agents for its Visa cheques in competition with First National Bank of Chicago, Wells Fargo and Company and many much smaller issuers, such as Golden Pacific National Bank of New York.

Golden Pacific has already been the object of a potentially thorny problem in the Visa approach. When confronted recently with one of its cheques to be cashed, a UK bank wondered whether a Golden Pacific Visa cheque had the same reliability as a Barclays Visa cheque. In fact it is backed only by Golden Pacific, although in the event of a problem Visa would probably come to the rescue to avoid bad publicity.

A more substantial question is whether Golden Pacific and other little known institutions that have become Visa cheque issuers will find the business a profitable one worth staying in.

Most observers doubt it, and they expect Barclays, as the only Visa issuer with experience and significant international acceptance *in* the business, will be the one these banks and Visa will turn to to bail them out. "I would think Barclays is in the best position of any of the Visa issuers," Mr. Lively says. "They have been in the business for a number of years."

Asked why Barclays gave up its own well-established travellers' cheque in favour of the Visa cheque, Mr. Bowden said, "We see the Visa name as an advantage in the long term."

Interbank hopes to avoid some of theproblems that have faced Visa by having a central printing and processing organisation but it will inevitably have a number of little-known issuers. Among its committed members, for example, are Seattle First National Bank, Continental Bank of Chicago and National Bank of Detroit.

The approach of the Thomas Cook-Eurocheque consortium should avoid both the acceptance and internal competition problems. The idea is for a bank or group of banks in each country to buy an interest in the existing company and thus share in the benefits of its current lines of cheques. In addition, any participating country may issue and guaran*tee cheques in its own currency.* These cheques would also be sold by all the Thomas Cook Eurocheque agency banks throughout the world. The new system is intended to come into operation by next spring.

Dr. Eckart Van Hooven *Mr. Dee Hock* *Mr. John Reed*

Three men at the top

Van Hooven Deutsche Bank

DR. ECKART VAN HOOVEN, Board member responsible for retail banking at Deutsche Bank in West Germany, is the architect of the Eurocheque and related European payment systems. He is very much at the centre of the controversies which rage in the world of banking payment systems. He is often portrayed as a man who believes in a closed shop and limited competition in retail banking in Europe. He is seen as the great critic of Visa—and Visa in turn has become the great critic of the Eurocheque systems.

Dr. Van Hooven studied law at Hamburg after the war, and joined Deutsche Bank at the age of 30. He would have preferred to join the German diplomatic service, he says.

When the UK banks first started experimenting with personal loans in the late 50s, Dr. Van Hooven was appointed by Deutsche Bank to look into this phenomenon. It was partly as a result of his initiative that the German banks announced a joint personal loans scheme in 1959.

Things have changed a lot since then. Today, over one-third of Deutsche Bank's loans are personal.

Deutsche Bank introduced a cheque guarantee card in 1968. Dr. Van Hooven became concerned that there would be a vast proliferation of similar cards both in Germany and throughout Europe. As a result he came up with the concept of the Eurocheque. The idea has undoubtedly been a great success and has contributed in no small way to making travelling easier within Europe.

Once the Eurocheque was operating Dr. Van Hooven saw other opportunities. He was behind the development of the Eurocard, and most recently he has master-minded the purchase of the Thomas Cook travellers' cheques division by European banks to serve as the basis for the proposed European Travellers' Cheque.

He describes his interest in European payment systems as "a hobby," but it is clear that he is fascinated by some of the possibilities which exist in this area. At this year's World Convention of Payment Systems he was the dominant personality present and made no secret of his opposition to Visa and Interbank, with what he referred to as their "global comprehensive payment systems."

Critical as his competitors often are of his actions and motives, most are prepared to say that Ekhart Van Hooven is the key figure in retail banking in Europe at the present time. He could be seen as the European equivalent of Dee Hock and John Reed rolled into one.

Dee Hock Visa

DEE HOCK president of Visa International, the worldwide payment systems organisation, is one of the outstanding personalities of the world of retail banking. To a large extent Visa is his own creation. His personality is stamped on almost everything the organisation does.

Mr. Hock, now 51, first came into contact with international payment systems when he worked at the National Bank of Commerce, Seattle in Washington State. This bank was one of the six original licensees of Bank of America's credit card. He was instrumental in the transformation of B and A's card into a U.S. payment system membership corporation, or co-operative called Visa in 1970. Four years later he helped to create Visa International, becoming its first president.

Mr. Hock sees Visa International as an organisation without precedent: "It is controlled by no member, country or religion, and is governed by directors from throughout the world. Its purpose is to create a worldwide system for the exchange of value."

Dee Hock has strong convictions about international payment systems. He sees the world as a single economic unit, and explains that Visa International recognises this. "There is an increasing need for means of exchanging value which transcends boundaries."

The stories told about Dee Hock are many. A senior official of the rival Eurocheque organisation recently suggested that it was Dee Hock's ambition to build Visa into the largest bank in the world without ever having to build or buy a branch office. The very idea is dismissed by Hock: "As a matter of policy Visa will never engage in any financial services in its own right," he declares.

Mr. Hock's recent absence from work on a four-month holiday encouraged speculation about his future with Visa, amid suggestions that some of Visa's member banks were getting worried about the direction the organisation was taking. But he simply needed a rest and is now firmly back in the driving seat.

Mr. Hock says he is not particularly well paid by U.S. banking standards for what he does, and he has no service contract. But he has come a long way since he left school at the age of 14 in North Ogden, Utah. His family was poor and a university education was out of the question. What motivates such a man? "I guess I believe the little guy should have a chance," says Mr. Hock.

Visa, with its credit cards and travellers' cheques, is certainly well placed to bring previously restricted banking services to the man in the street, whether he be in Birmingham, San Francisco or somewhere in Japan.

John Reed Citibank

JOHN REED, the man in charge of all retail banking operations at New York-based Citibank, is one of the top Citibank, is one of the few top men at the bank. He took over responsibility for Citibank's retail business five years ago, at the young age of 36, and is now halfway through a 10-year plan to expand the bank's retail business to a stage where it will be contributing around a quarter of Citibank's earnings.

After taking his masters degree at Massachusetts Institute of Technology he was lucky enough to get a job with Citibank in overseas planning. The man in charge of this area of the bank's business at the time was Mr. Walt Wriston, now chairman of Citibank. He was obviously impressed by Mr. Reed and clearly had a hand in his rapid promotion thereafter.

It was in 1974, when international banking was going through a crisis period, that Mr. Reed was virtually given a year off to study Citibank's involvement with retail banking. He concluded in a report to the board that the bank should either commit itself strongly to the business or get out of it altogether. In 1975 the board decided that Citibank would stay and build up the business. John Reed got the job.

Today Citibank was some 30 independent business units reporting to six divisions in the retail banking field. Roughly half of these are outside the U.S. and Citiban kis probably the largest international retail bank in the world. It has substantial operations in W. Germany, Hong Kong, Puerto Rico, Belgium, Australia, and Brazil. Smaller operations exist in other countries including the UK. The distinguishing feature in all of these is that they sell retail banking services only. "We're dedicated to serving the consumer," comments Mr. Reed.

John Reed differs from the banking stereotype in several ways. He is one of the youngest men to reach the top of a major bank, he is obviously fascinated by what he is doing, and most extraordinary of all he is open. He does not mind admitting that Citibank has made its mistakes—in not yet getting into the UK retail banking market in a big way, for example. "We had management problems," he explains, but things have now been sorted out. "We would make an acquisition if we could find something suitable. I would buy 100 branches from the clearers if they would sell . . ."

John Reed speaks highly of both Mr. Dee Hock and Dr. Van Hooven but Citibank remains totally opposed to co-operative-style payment systems like Visa, Interbank and Eurocheque. Citibank will remain independent of these organisations, he says, unless it has no alternative.

Michael Lafferty

Electronic revolution still has a long way to go

POINT-OF-SALE TERMINALS

ELAINE WILLIAMS

EVERY HOME will one day have its own computer terminal through which people will be able to do all their banking, shopping and bill paying.

Money will be replaced by plastic card with a magnetic strip storing information relating to its owner.

The introduction of point of sale terminals in supermarkets and other retail outlets is a step towards this electronic tomorrow.

Point of sale terminals, as defined by the banking community, are electronic cash registers, which allow the customer to pay his or her shopping bill by directly debiting an account.

Despite the fact that electronic cash registers are now common sights in many supermarkets, the day when they will be connected directly to banks seems a long way off because of the social and legal problems.

Several experiments are taking place in Europe. In Bourg en Bresse, near Lyon, the Banque Nationale de L'Ain, a subsidiary of CIC, is carrying out a very ambitious project.

About 100 retailers are linked to a central computer supplied by the U.S. company IBM and plastic cards have been delivered free to 3,000 customers.

Neither customer nor retailer have to pay to be part of the network which means it can be judged only on the amount of use that is made of it.

Swedish savings banks also have an experimental system, called the Blekinge scheme, which has 50 point of sale terminals in two towns linked to an existing network for automated teller machines. The scheme involves both supermarkets and petrol stations using credit cards and oil company cards.

A similar scheme covers petrol vending at Knokke, in Belgium. A few other schemes limited to petrol stations are also in existence. Another large point of sale experiment is planned for Britain involving *1,000 terminals.*

Underlined

Although there has been a lot of interest in the U.S. in point of sale terminals, the definition of the system is slightly different. Most banks tend to regard the system as an instant method of authorising cheque transactions rather than an electronic funds transfer system to replace cheques.

Experiments using conventional point of sale terminals have not had very encouraging results and most have been abandoned.

But the U.S. banking system is different from that in Europe The large number of banks and the high degree of competition makes it difficult for banks to co-operate on a State or national scheme. Anti-trust legislation also restricts co-operation, and even the larger banks are reluctant to invest the large sums required to set up point of sale systems.

In any system which is set up on a commercial basis, a set of charges have to be levied on both the retailer and the shopper. A decision also has to be made on whose responsibility it is to install the electronic equipment which is required to form the link between the supermarket terminal and the bank's computer.

Another problem still to be resolved is the equipment itself. Because retailers have already invested a lot of money in electronic cash registers, they favour the use of a small add-on unit which would provide the necessary link to the bank.

But banks tend to favour a special point of sale terminal, which would be more expensive. If they have to install and maintain the equipment they will also prefer to choose the type of terminal.

A recent study by Pactel, part of the PA International group, estimated that European banks will spend about $1.48bn (£648m) this year on electronic equipment including automatic tellers, computers and communications equipment. Only $1m of the total will be for point of sale terminals, which underlines the fact that this is very much an experimental area.

Even in 1985, when total spending will reach $2.1bn, point of sale will account for a mere $7m. Pactel says that while point of sale terminals are likely to be introduced in most countries they will not have a major impact on overall payments traffic during the 1980s.

Cash will continue to be the dominant payment medium, with about 60 per cent of all payments over $10 being by cash in 1990, although the use of cheques and credit cards will continue to grow.

In addition safeguards have to be built into the system to protect the customer and the bank from fraud.

In Britain, banks have realised that any point of sale system should be a national one.

Development is shared by the clearing banks, Barclaycard, Access and the Trustees Savings Banks which set up a special working party to work out the details of a suitable system. After several month's work they produced a huge document rumoured to be so thick that it had to be delivered by forklift truck.

The working party has proposed that a pilot experiment involving 1,000 terminals should be working in a UK city within two years. A decision on where and when will be made in September.

It is estimated that the total investment cost for a national scheme would be around £700m—which no bank would care to fund alone. Such a system would also have to be cheaper than the cheque system. British conservatism towards *new* technology means that it would probably be several years before the network would pay for itself.

Campaigns to attract the unbanked

MARKET PENETRATION

ARNOLD KRANSDORFF

IN THEIR search for new customers the banks have launched some skilful marketing campaigns to attract such unbanked groups as young people generally and students in particular, wives, and weekly paid manual workers. In much of the Western world they have been very successful—though there are some notable exceptions.

In France, West Germany, Holland, Canada and the U.S., for example, more than 90 per cent of all adults have at least one bank account and the attitude towards money matters is highly sophisticated.

In contrast, the market penetration in countries such as the UK, Italy and Spain is much lower. According to the Inter Bank Research Organisation, just over 50 per cent of the adult population in the UK had bank accounts in 1976, while in Italy and Spain, the figure falls below half.

The banks have evidently been making some headway because this figure had risen to 53 per cent by the end of 1979. AGB reveals that nearly 40 per cent of the UK hanked adult population are with the Big Four — Barclays, National Westminster, Midland and Lloyds.

The relatively low penetration is attributed mainly to the system of weekly wage payments; almost 80 per cent of manual workers are still paid in cash.

This contrasts markedly with other European countries such as France, Holland and Belgium, which since 1965 have largely dispensed with the system of weekly wage payments — a development achieved through both government and bank initiatives.

In France, where less than 30 per cent of wage-earners receive their remuneration in cash, the lead came from the Government as part of a package of measures designed to reduce social divisions.

In Belgium the significant growth in the use of hanks has been due mainly to the financial

In the UK, ahe relative un-institutions, which have mounted intensive publicity campaigns, created a dense network of branches and introduced the cheque guarantee card.

Commercial banks hold more than half the number and total value of current accounts in the country, followed by the post office, public credit institutions and private savings banks. popularity of banks is blamed squarely on class divisions.

IBRO's research shows that while managers and the self-employed are more than 80 per cent banked in England and Wales, only 29 per cent of the main group of mannal workers have current accounts.

Research by the bank for International Settlements (BIS), published earlier this year, provides a fascinating and detailed insight into the market penetration of retail banks. In many cases however, its statistics are not strictly comparable, so conclusions have to be treated cautiously.

BIS reveals, for example, that the UK and Italy, both of which rate low on the scal eof "banked" countries, have fewer bank offices per head of population than other major industrial counties.

In the UK there are more than 17,000 bank offices (including building societies but excluding post offices), each serving a population of more than 3,(000. In Italy there are fewer offices—just over 12,000 —with each one serving more than 4,500 people.

France, which is less densely populated than other European nations, has roughly twice as many bank offices as the UK, each serving about half as many people.

In Germany there are even more banking offices—almost 44,000—each catering for a population of about 1,400, slightly more than Switzerland, which has about 4,700 bank offices.

The best ratio of bank offices to population belongs to Belgium, one of the most densely populated countries in Europe, where there are just over 1,000 people per bank office.

Across the Atlantic the U.S. has more than 90,000 bank offices each serving almost 2,400 people, while Canada has more than 13,000, each serving slightly less than 1,800 people.

An examination of the types of bank account held around the world shows that in Belgium, France, Italy, Holland and Sweden, more people hold deposit acconnts than current accounts, while in the U.K. and Germany the position is reversed.

Taking Sweden, for example, out of every 1,000 account holders, around two thirds hold a current account while each holds at least two deposit accounts.

In the UK, almost all account holders hold a current account but only one in three hold a deposit account, while in West Germany, about three quarters of account holders have current accounts and only a few—just over 10 per cent—have deposit accounts.

In the UK, just over a third of adults hold some form of account with a commercial bank only, around a tenth with national savings banks anly and roughly 5 per cent with a building society only. About a quarter of adults hold more than one type of account, while a fifth hold none.

One of the more curious aspects of the UK banking system is that it does not allow interest on current account deposits, yet current accounts are more popular than deposit accounts.

Another unusual aspect of the UK banking system it its preference towards lending to industry as opposed to individuals. It is a fact that only a fifth of personal deposits with the clearers are lent back to people by the banks.

This compares with abont 60 per cent in Canada and nearly three-quarters in Holland.

This can be partly explained by the fact that UK banks do not provide housing loans to any great extent. In the UK house loans have traditionally been provided by building societies, which is why bank customers have about 10 times as much money on deposit with the building societies, which offer competitive rates of interest, with the banks.

South African banks also stand clear of the home loans market, but banks are the main source of housing finance in Australia, and in Canada the banks compete directly with trust and mortgage institutions.

In the U.S. banks play an important role in house purchase although the market is still dominated by savings and loan associations.

In Japan nearly all lending to the personal sector goes towards house purchases, a pattern repeated in Sweden, Holland and France.

Cash is a relatively small proportion of the value of payments in most countries, although it accounts for the largest number. As countries become more sophisticated in their money systems this is gradually being eroded by cashless systems such as credit cards and giro payments.

According to BIS, there are already indications that some cashless paper means of payment might before long be recognised as enjoying similar privileges as mandatory or recommended payment instruments.

Direct crediting and debiting for bulk and recurrent payments are emerging almost everywhere, it says, and credit cards and debit cards appear to be assured of a future in those countries where transfer and giro organisations are less developed and fewer liquid assets are held available.

Committed to expansion

SAVINGS AND CO-OPERATIVE BANKS

RAY MAUGHAM

THE SAVINGS and co-operative bank movement has been through many changes throughout the world in the post-war years. Founded initially to attract day-to-day savings from the lower paid and, in the case of co-operatives, to assist the local agricultural community, the banks have expanded the range of services in competition with the commercial sector without losing the essence of their regional flavour.

In Britain, the process of savings bank expansion is just beginning as the Trustee Savings Banks start to compete with the clearers but if the evolution of the UK savings movement has been very much slower than that of its overseas counterparts, the pattern is almost the reverse of events in Europe, particularly in West Germany and the Netherlands.

In both these countries the commercial banks were virtually oblivious to the private customer before they woke up to the need for a stable retail deposit base. If the TSBs in the UK are now starting to attack the clearers, German and Dutch savings and co-operatives banks have had to withstand incursions from the commercial sector. Broadly speaking they have survived and flourished.

The financial sector in West Germany is notable for the strength of the deposit-taking institutions. The three main constituents of this sector, the commercial banks, savings banks (or sparkassen) and credit co-operatives, may well be described as universal banks for they all provide a range of services which extends far beyond the range of a typical deposit bank. One need only look at the growth of West Deutsche and Bayerische Landesbanks, for example, to understand the international position of the West German savings institutions.

In common with the banking community in West Germany as a whole, the savings banks and co-operatives have centralised over the past 30 years. Tha number of credit co-operatives has fallen by more than half to about 6,000 banks and the number of savings banks by around a quarter to some 600 sparkassen.

That might nevertheless still imply a vastly greater level of competition than seen in the UK. The largest clearer, the National Westminster Bank, operates from 3,200 branches in Britain but the point about the European savings banks and the co-operatives is their regionality and determination not to poach of each other's territory.

Their growth, however, has been nurtured by the extension of their services from a limited base and by the establishment of regionally- and nationally-based central institutions to harness the resources of their members. Centralisation has allowed them to swap liquidity, for example, and to enter the market for "jumbo" loans. The DG Bank, the central co-operative bank, has become very active in the Eurobond and syndicated Eurocredit markets.

The savings banks in West Germany operate a total of around 17,000 branches and, with very few exceptions, are linked with the local and regional authorities which assume ultimate liability for them.

Resources

An examination by the Inter-Bank Research Organisation into banking systems abroad found that savings bonds and certificates provided about 75 per cent of the West German savings bank's resources.

Most funds are provided by individuals and about half the savings banks' claims are in the form of long-term loans particularly for housing finance and for local authorities' capital expenditure.

The organisation of the credit co-operatives is on very similar lines. They have in aggregate about 15,00 offices and, although smal individnaly, they add up to significant national coverage. The strength of the system, mirrored throughout much of Europe, rests with their close local ties with customers. They have shown rapid growth in the past decade or so relative to the commercial and savings hanks and, like the latter, most of their funds are on-lent to other financial institutions, principally to their own DG Bank.

Deposit-taking institutions also predominate in France. The savings banks, although not allowed to lend freely to personal and corporate sectors have extended their services in much the same way as the TSBs in Britain are now attempting. They offer mutual fund management, insurance services, financial advice and trust business.

The French savings bank structure is similar to that of many other European countries in that it falls into two categories. The National Savings operates through the Post Office branch network offering its services to small customers while the ordinary savings banks are associated with local authorities. Both operate passbook accounts and special savings accounts for house purchase.

In many ways their supervision has reflected that of the TSBs in that the majority of savings have been compulsorily placed with Caisse de Depots, home loans have been granted with the approval of the Caisse des Depots et Consignations and, in return, the savings banks have enjoyed certain fiscal advantages.

The mutual and co-operative banks in France fall into three main categories. The "popular banks" have a central institution which administer their funds and carry out the full range of banking functions. The agricultural credit banks, fuelled by the rising prosperity of the French farming community ando the monopoly they enjoy in distributing subsidised credits to farms, have grown quickly in the past 30 years and have extended the total banking function to regions which had previously lacked sophisticated financial services.

Structure

The mutual credit banks have no particular historic specialisation but engage in consumer, agricultural and commercial credit. They include the agricultural banks which do not affiliate to the National Agricultural Credit Bank (which has about 3,000 local banks and some 90 regional banks) and other mutual institutions. Like the agricultural co-operatives they have a three-tier structure of local, regional and national levels and adhere to the common pattern in having central institution which provides services to the group as a whole.

The savings and co-operative banks in to the Netherlands have had to respond to the expansion of services offered by the commercial sector. Tae Dutch banking system is a combination of the European model and the British structure. The investing institutions have far greater infinence in Germany and France just as they do in the UK. On the other hand, the agricultural co-operatives play very much the general role of the commercial banks.

Again, the process of consolidation by merger is very much evident. In 1972, for example, the two previously independent co-operative agricultural systems joined forces. The agricultural co-operatives, or Rabobanks, were largely established in the last century, run by their members and making loans to local farmers and to rural artisans and traders.

The Centrale Rabobank was formed in 1972 on the merger of the Cooperatieve Reiffeisen Bank (Utrecht) and the Cooperatieve Centrale Boerenleebank (Eindoven), but before this, the effect of post-war industrialisation had been to extend the Rabobanks' basic business to include loans to industry, part of which is unsecured credit on an overdraft basis, mortgage loans and, more recently, consumer credit.

They appear to have beer successful in maintaining market shares in the face of commercial sector pressure, entering the urban areas, providing current account facilities and joining with the commercial and savings banks in setting up the bank giro system. Again, there are parallels with what the TSB is now trying to do: the Rabobanks offer insurance broking and travel agency facilities for example.

They have not, however, been so successful as the Rabobanks in resisting the encroachments of commercial rivals. In the decade to 1975 their share of total savings deposits declined from 27 per cent to 22 per cent although, they have recently been attempting to reverse the decline by introducing a wider range of facilities. Consumer credit and current accounts are among the newer innovations.

The movements' own commercial banks—the Bank der Bondsspaarbanken—has been set up in the last few years to operate in the money market where it employs the savings banks' excess funds.

In the main, the success of savings banks and co-operatives on the Continent of Europe provides some clear guidance for the British TSB in its expansionary effort. In general, they have managed to have their cake and eat it. Their regionality has maintained local customer loyalty, the European banking community has communicated the need for their services to a far greater proportion of the population than their British peers and the mutual organisations have played a full part.

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Aiming to rival the banks

POST OFFICE GIRO

IAN RODGERS

THE ONCE-CLEAR demarcation line between banks and Post Office giro systems in tha funds transfer business is becoming increasingly blurred.

Many of the world's Post Office giros, establisbed to provide efficient, cashless fund transfers, have been rushing to introdnce savings accounts, personal loans, caah dispensers aod other services that make them look more and more like banks.

"We would be happy to be seen as a bank," says Mr. Sam Wainwright, managing director of Britain's recently renamed National Girobank. "We regard ourselvea aa a bank and we behave as a hank.

Meanwhile, banks are introducing increasingly sophisticated and integrated clearing systema to reduce the movement of cash and otber paper records, thus imitating the poatal giro philosophy of centralising the book-keeping associated with fund transfers.

In a few countries, moves are under way to Integrate the banking and postal sectors. In Sweden, for example, where the postal giro system has 15.4 per cent of all bank accounts and manages 34.5 per cent of funds held by financial institutions, integration with the banking system has been formalised since 1974 when a contract was signed between the postal giro and the government-owned PK-Bank for exchanges between the two payment circuits.

In Holland, consultations under the direction of the president of the central bank began in 1975 among the banks and postal authorities with a view to integrating the country's three paymeots circuits, but giro officials expect no results in the near future. In Britain, where te Giro has been established for only 12 years, talks are believed to be under way aimed at having giro join the commercial banks' clearing systems.

Finland's Postipankki comes nearest of all giro systems to being a full commercial bank. All Government departments, local authorities, banks and large businesses have giro acconots and almost all banking transactions are made through giro. Unemployment benefits are paid into giro accounts and a wide range of deposit and savings services is offered.

In other countries, however, the competing payments circuits seem to be remaining resolutely Independent. In Japan, for example, a new electronic posal giro is being set up independent of the hanks. When completed in 1984, it will be the largest money transmission system in the country.

Different countriea have different ways of delivering transactions from one circuit to another, hut it often involves the postal giro having a special relationship with one bank.

Apart from these trends, it is difficult to generalise abont the world's giro systems. The only universal characteristic is that they are based in the oational post office with a vlew to using its vast distribution network to provide various financial services.

Forbidden

In Italy, for example, wbere banks are forbidden to promote their services directly to potential customers, the post office baa long dominated the personal banking sector, with 65 per cent of all savings acconnts in its 13,459 brancbes. However, its share of the current account market wbere customers are mainly corporations, remains an insignificant 5.1 per cent.

In Switzerland, the pattern is reversed with the post office forbidden by law to offer savings accounta or grand overdrafts. The result ia thet the Swiss postal giro operates more as a funds bandler, processing 90 per cent of all non-cash transactions, tban as a repository.

Like the Italian Post Office, the Japanese Post Office has offered mainly savings accounts on which it is not possible to draw cheques or effect credit transfers. As of Septemher, 1978, it held 41,300 billion yen or 15.3 per cent of total deposits end savinga hnt bad a comparatively small role in funds transfer systems.

The importance of giro systems in different countries varies widely. The largest system is in Fraoce, with 48 per cent of all accounts and 31 per cent of all deposits. In West Germany, the postal giro has 7.8 per cent of all accounts and 5.9 per cent of deposits. The Dutch system is one of the largest, with 65 per cent of all accounts and 46 per cent of deposits. The relatively new British system already has 22 per cent of accounts hut only 3 per cent of deposits.

The first European giro was founded in 1883 in Austria. Most of the 13 systems operating in Europa begain in the years leading up to, or shortly after, World War II. Many had a near monopoly on personal banking and grew rapidly at least until banks started showiog ioterest in the personal sector in the 1960s. The number of transactions handled by the French giro, for example, bas been declining steadily since 1970.

Post giro systems never got establisbed in North America and, with well developed commercial banking sectors and deteriorating postal systems in the U.S. and Canada, there is little chance of them starting in the future.

Many post offices are issuers of large amounts of casb on bebalf of thelr goveroments, for pensions and various other social security measures. To balance their outgoinga they find it advantageons to bave their giros compete for large cash colection accounts, notably from retailers. Britain's Girobank, for example, attracts more than £14bn a year in corporate deposits and is vigorously pnrsuing more.

Many also offer to make part caah credit transfers. The German Post Office has developed a crossed money order to enable businesses and government agencies to deal with many customers who do not have a giro account. The payer submits a magnetic tape to the post office which prints out the data on money order forms and then debits the payer's account and posts the orders to the payees.

The postal giro systema have no strong international association but they co-operate in some customer services. For example, money can he transferred to and from any of 20m giro accounts in Western Europe and Japan. The giros also offer a variant on travellers cheques called postcheques whicb, wben supported by a guarantee card, can be cashed in the local currency in the post offices of most European countries.

Spending on big scale

COMPUTERS

ELAINE WILLIAMS

BANKS IN EUROPE will spend $1.48bn (£648m) on new automation eqnipment this year. About $600m will go solely on computers.

The hiatory of computers in hanking goes back to the late 1950s when computer manufacturers were finding the first applications for their machines outside the scientific fields.

At first the machines were used only for accounting at bead offices. But the falling cost of microelectronics — through the development of the ubiquitous silicon chip — produced generstions of computers which were smaller and cheaper, allowing banks to widen their use of computing.

They placed computer terminals in branch offices to allow access to centrally sorted information at head office. Banks now spend an average of $475,000 per brancb on new equipment.

Electronics equipment allows banks to become more efficient as they widen their range of services to the customer, and to increase productivity without increasing staff.

Double

With overall investment in new equipment such as automated teller machines, electronic cash dispensers, point of sale terminals, computers, and terminals for inputting data expected to double by the 1990s manufacturers have to be aware of the specific needs of banks.

Unfortunately for manufacturers banking procedures vary widely between countries. Even within the same region rival banks will bave difference ideas on how to use technology so manufacturers have to watch for trends.

According to Pactel, part of the PA International group, which recently carried out a survey of banks' use of computers and telecommunications there will be changes in banking attitudes during the 1980s.

Pactel says banks will "sbop around more." Instead of using a single supplier to meet their needs, banks will cboose equipment from several suppliers to form new systems.

With tbe move towards decentralisation of bank services, branches will need more sopbisticated terminals and communications links to the central computer than they have now, Pactel helieves. Programmes will also have to be more comprebensive to allow branches to offer the wide services which will be demanded of them.

As bank automation grows—about 22 per cent of teller positions in Europe are now automated — staff will be employed to provide more personal advice services to customers. This will mean a heavy growth in computer terminals which are placed in tbe front office rather than away from the customer, says Pactel.

In addition, more so-callad "front office terminals" for things like account inquiries will be entirely at customers' disposal. Pactel says the number of front office terminala will douhle to more than 200,000 by 1985.

The automation of customer contact points throngh automatic teller machines (ATM) and other terminals will reach near saturation in some countries, in the latter half of this decade, the survey says. It forecasts that the numher of machines will inecrase from about 400,000 in 1979 to about 550,000. Most of the growth will ba accounted for by consultancy for private and corporate customers.

During the 1980s banks will also be experimenting with what could be described as the "unmanned" hranch. With little or no human supervision such branches will be equipped with full function ATMs and some limited function cash dispensers, enquiry terminals, special function terminals and the like.

Manufacturers bave to design such machines, which have to work without sueprvision, to be capable of testing themselves and diagnosing faults quickly. Tha machine has to be able to pinpoint problems so that bank staff can carry out small repairs themselves by plugging in a new part.

All the equipment necessary to meet banks present and future needs is available now. In fact, the main danger is that technology is moving too fast

CONTINUED ON NEXT PAGE

Financial Times Tuesday May 27 1980

Increasing source of business

HOME LOANS

MICHAEL CASSELL

THE PROVISION of finance for the private housing market represents in many Western countries a growing source of business for the commercial banking community.

For the past 30 years there has been a distinct international move oo the part of the banking world to court the private customer alongside the corporate client and the home loans market is emerging as a potentially worthwhile and profitable device for penetrating further into the personal sector.

The emergence and growth of deposit - taking institutions specialising in the provisioo of private mortgage finance for housing may not have made the banks' task any easier hnt in several countries they are now beginning to examine and tackle the market with an aggression and enthusiasm not previonsly been apparent.

The commercial banks lo most countries dealt, during the early stages of their development, only with wealthier individuals in the private sector and preferred to leave tha provision of services for the smaller saver to other institutions or governments. Penetration of the personal sector only hecame more marked once the hanks began to appreciate that it represented an important and expanding source of deposits.

Valuable

In the Netherlands, for example, not only did the private customer begin to provide at the right time a valuable line of fresh funds; be also made possibla the supply of the type of medium-term finance which the Dutch banks were particularly anxious to secure.

As a corollary, the banks' determination to procure more bnsiness in the personal aector led to the provision of a wide and expanding range of services, including consumer credit, mortgage loans and money transmission, as well as a rise in bank savings deposits which eoabled them to help fund their longer term credit for industry.

The same patern has been discernable in most of the major Western economies, with mortgage finance for the private customer representing an important optioo in any market expansion strategy under consideration.

Few countries have recently offered a greater opportunity for the commercial banks to expand their home loans business than Britain, wbere difficulties eocountered by the building societies—the traditionally dominant suppliers of private bousing finance—have led to the opening np of the marketplace to mucb greater competition.

Until receotly the clearing banks were largely content to leave the private mortgage market to the building societies and, to a mucb lesser extent, to the insurance companies, but the receot period of record interest rates has dramatically exposed the societies' recurring inability to meet overall mortgage demand and at the same time bas encouraged the commercial banks to take a closer look.

Tbeir activities have so far been restricted to the top end of the market—generally loans of £20,000 or more — a policy which has restricted their area of operatioo in a market where the average mortgage advance is around £13,000. But with house price increases continually pushing up the requirement for larger loans (pressure on available resources discourages the societies from making blg advances) aod the coocept of more expensive mortgage finance becoming gradually more acceptable, the banks are heginning to feel that the opportunities for home loans business are growing.

Nor does it seem likely that their interest in homa loans will be a temporary one, with the impending removal of "corset" controls on bank lending likely to lead to a stepping-up of competition for this type of husiness.

The major UK commercial banks are well aware that a growing number of foreign banking competitors operating within the UK are now offering mortgage schemes and that demand has beeo high. The readiness to offer finance on a long-term basis and to provide it with the minimum of delay is proving popular with customers and although the building societies are set to maintain their grip on tha total bousing finance market their own decision to compete more aggressively for mortgage funds in an attempt to shorten an almost permanent mortgage qneue could take on an added importance.

In the U.S., where demand for home ownership is also very strong, the savings and loaus institutions represent the most important housing finance bodies, though they do not dominate the market in the same way as do building societies in the UK. The associations hold around 30 per cent of mortgage loans outstanding while the commercial banks, with around 10 per cent, play a less significant role than either the mutual savings abnks, life assurance companies or federal agencies.

The private mortgage market in the U.S. has become virtually fully integrated into other financial markets, with loans available on demand from a wide variety of sources but at rates which tend to be above other long-term rates.

Tha U.S. is the only country where the "savings bank" system largely operates with fixed interest rates. The variable rate mortgage is still a rarity in a country with a very active secondary mortgage market and the system has worked well, largely because ioterest rates in the U.S. bave traditionally been more stable.

Recent events, however, have plunged the bome loans market into a major crisis and the whole structure of the U.S. bousing finance system is being urgently reappraised at a time of volatile interest rates and bigh inflation. The variable rate mortgage, the introduction of which has so far been largely confined to the east coast, would appear to provide the mechanism for a more flexible mortgage system and it could be that a new set of ground rules for its operation might provide the commercial banks with an opportunity to involve themselves more deeply in a market which until oow has beeo adequately aerved by other institutioos.

Significantly

Over the border in Canada, wbere the boosing finance system relies largely oo the savings hank system, the mortgage market has in recent years become increasingly competitive. A wide variety of institutions — from life companies, loan and trust companiea to credit unions aod peosion funds — provide home loans and in this respect the role of cbartered banks has expanded significantly in the last 13 years.

Originally, the chartered banks were only able to make loans at interest rates of up to 6 per cent but legislative changes have now enabled them to make insured loans at market rates, although mortgage assets are still not allowed to exceed 10 per cent of total liabilities. Since the law was liberalised in 1967, the banks have become major institutions in the lending market, with their share of mortgage husiness rising from around 4 per cent in 1968 to over 15 per cent by 1979. They seem likely to continne taking an increasing share of the nation's mortgage business in future years and can already claim to have introduced many of the finoovations which have recently been made.

In West Germany, wbere home ownership is also very popular (owner occupation is rising towards 50 per cent) an entirely different housing finance system bas evolved, In which funds are provided by a variety of institutions operating on divergent principles.

Most financial operations are universal banks, offering a full range of financial services, within which mortgage loans are included. Over half of all mortgage finance is arranged by the Bausparkassen, specialist bousing finance bodies which—in the case of some private ones—are controlled by the commercial banks and insurance companies.

While the commercial banks do a limited amount of direct mortgage lending, normally at a fixed rate of interest for five years, they have a more major role in the housing finance field via their ownership of private mortgage banks. They also have an ioterest in some of the private Bausparkassen.

Of the largest six private mortgage banks, four are owned by the three largest commercial banks, four are owned by the three largest commercial banks. Traditionally, the mortgage banks concentrated on financing the construction of rental units but in recent years their lending pattern has shifted in response to the growing proportioo of new homes being erected for owner occupation.

In West Germany aod other European nations, such as Hollaod, Sweden and Denmark, bousing finance has become increasingly competitive, with the commercial banks tending to play a wider role than has traditionally been the case. Whether in the form of direct mortgage business, or via the ownership of specialist lending institutions, their influeoce seems set to continue in a market capable of providing them with a valuable source of additional business.

Computers

CONTINUED FROM PREVIOUS PAGE

and new developments quickly outdate equipment which is only just installed.

How this pace can make systems obsolete is underlined by the fact that in January, the clearing banks and the Bank of England halted development work on CHAPS — the clearing house automated payment system. This would bave speeded up the clearing of credits between branches of all the banks subscribing to the system.

Work was stopped only four mooths before the system was due to be fully implemented, after three years work by International Computers Limited (ICL) and Logica, the software company which was developing the programmes.

ICL was the principal supplier for the successful BACS system (banks automated clearing system) which has been operating in the UK for about 10 years.

The banks' reasoo for suddenly abandoning the work was growing worries about the life of the system—estimated at only five years before it would become outdated—coupled with the rising cost.

"Advances in technology may offer more cost effective solutions based oo banks' existing computer facilities," said a statement.

Another problem for manufacturers and banks is the response to technology. The concept of totally electronic banking may seem attractive but customers may fear its introduction and spurn its use.

New methods of banking also have to take into account all the complex legal and social implications which can considerably slow down the advance of new technology.

Banks in the news

This and the following two pages carry articles reviewing the activities of a selected number of banks around the world currently under the spotlight.

Britain's Midland Bank

BEHIND THE impressive exterior of 27-32, Poultry in the City of London lies the headquarters of Midland Bank, and an organisation which has embarked on a vast process of change both nationally and internationally. Midland was once the largest commercial bank in the UK and possibly in the world. Today it ranks third in size in Britain and about 40th in the world and sees itself as the most diversified of the big clearing banks. Its domestic interests range from the main bank with around 2,500 branches to finance houses, leasing and factoring businesses, the Thomas Cook travel services company, and the Samuel Montagu merchant bank.

Internationally it has substantial operations in places like France and Australia and is involved in local joint ventures in places like Spain, Singapore and Brazil. It is major shareholder in a series of consortium ventures with the EBIC group of European banks, ranging from European-American in New York to European Banking Company in London.

Midland's management is in the hands of two chief executives—Mr. Stuart Graham, who is responsible for the domestic bank and Mr. Malcolm Wilcox, who controls the international side and related services such as Thomas Cook and the Forward Trust finance house, leasing and factoring group. The system seems odd by classical management standards, but Malcolm Wilcox says it was established in 1974 to suit the needs of the time. Midland's priorities then were to reorganise domestically while expanding internationally. There were two separate jobs to be done and the Midland Board took the view that this was too much for one man.

For Malcolm Wilcox the task of international expansion was a formidable one. Up to the time of his accession Midland had based its international strategy on the philosophy of corespondent banking. It had become a member of EBIC, the Europe-based consortium banking club which includes Deutsche Bank of West Germany, AMRO of Holland, Societe Generale of Paris and Societe Generale de Banque of Brussels. EBIC has been a success in the sense that it became the most successful of all the international bank consortia. But support for the concept had left Midland very poorly represented on the ground around the world.

Over the past few years Midland's reliance on EBIC as the sole vehicle for its international ambitions has waned, though it still remains committed to the club. Since 1974 it has expanded operationally in France, where it now has a bank with 15 branches; in Australia, where it owns a finance house; in Canada, where it runs a financial services company, and in several other places including Singapore, Bahrain and Brazil. A host of representative offices has also been added in places such as Sao Paulo, Cairo, Moscow and Buenos Aires.

But most of all Midland has been seeking a major acquisition in the U.S. That particular goal seemed to have been achieved last year when it announced a plan to buy the Walter E. Heller group for a record $500m. Everything seemed to be going like clockwork after the announcement and Midland arranged to sell its long-standing associate stake in the Standard Chartered Group, implying that it had no further ambitions in that direction.

But suddenly everything seemed to go wrong. The Heller deal was off, with no explanation given. To add to the Midland management's embarrassment the placing of the Standard Chartered shares a week earlier had not gone according to plan and it was left holding part of the stock. Inevitably, perhaps, a great depression seemed to hit the head office in Poultry. For several weeks Midland did not want to talk to the Press.

Time has helped to heal much of the embarrassment, but Mr. Malcolm Wilcox must realise that his term of office will probably be judged to a large extent on whether he can land a U.S. deal before he retires in 1981. His list of priorities for further international expansion reflect this. Top comes North America and Western Europe, followed by the Far East and Australia, the Middle East and South America.

Ambitions

In Western Europe Midland is happy with its network of branches in France. But it might buy a specialist bank in West Germany and also has ambitions in Switzerland. "We want to broaden our base there," says Mr. Wilcox. The same applies to Canada: "We would wish to take advantage of opportunities to raise the level of our involvement." Overall his ambitions for Midland amount to this: "We want to be in Division I of international banks."

While Malcolm Wilcox has been battling on the international side, Stuart Graham has faced no less a challenge with the domestic clearing bank. Before becoming chief executive in 1974 he had developed fairly clear ideas about how the bank should be reorganised. Essentially, he resolved to separate corporate and retail banking. "I don't think a branch manager can be all things to all men."

First, a corporate finance division was created within Midland to take over banking relationships with its 300 largest customers. Then Midland embarked on a plan to turn most of its 2,500 branches up and down the country into "service branches." "We decided to bring together groups of branches with a central management team for business customers, leaving the service branches to cater for the personal sector," explains assistant chief general manager Mr. John Brooks.

In the service branches Midland is taking much of the back-office work out of the branches to regional operations centres, thereby allowing more space for customer contact. It is a massive scheme by any standard. "We are changing the whole face of the bank after 140 years," comments Mr. Brooks. "It's a major problem."

He predicts that around a third of Midland's UK banking volume will have been reorganised by the end of 1982 and the scheme should be fully operational by 1985. Then the clearing bank will comprise around 2,500 service outlets aimed at the retail market and money transmission, and selling a wide range of financial packages; 50 operations centres doing the back-office work in low-cost locations; 300 area offices with both management and corporate services, and 24 regional offices.

Stuart Graham explains that the rationale behind his whole approach is simple: "We want to give the customer what he wants." To get his ideas accepted he has faced a major educational task in a bank where managers and staff have traditionally served only the better-off members of society as well as the business community. "We could not deal with the Great Unbanked within the existing structure of the branches."

Asked to reveal what he regards as his main achievement, Stuart Graham is characteristically reticent: "If I have done anything it is to convince people that the old order cannot continue." His greatest disappointment? "I would have liked a bigger customer profile but change takes time."

John Brooks believes that Midland is now well placed to increase its market share. "The handling of increased volume is the key to success. We're going out after the unbanked."

It seems ironic that neither Malcolm Wilcox nor Stuart Graham will be in the driving seat at Midland when their ideas are finally put into practice throughout the group. As things go in the world of clearing banks they will both retire within the next few years, though each will probably retain a seat on Midland's Board, which is mainly composed of non-bankers. If history is anything to go by neither will be considered for the chair. That post, too, has traditionally been retained for a non-banker.

M.L.

The Triad

A STEADILY growing number of Third World Governments and central banks are hiring Western banks to advise them on their international financial dealings and act as go-betweens. While some banks specialise in reserve asset management—the Schroder group offers what is one of the best-known services of this kind for central banks—a group of banks which has come to be known as the Triad has found a profitable niche of a different kind.

The three banks which comprise it came together five years ago when the Indonesian Government was facing the difficult task of restructuring the debt of Pertamina, the State-owned oil company. Each offered its services independently to the Indonesian Government, which finally invited Kuhn Loeb Lehman Brothers Int. in New York, S. G. Warburg and Co. in London and Maison Lazard et Cie in Paris to join forces.

The combination proved attractive to other countries faced with serious problems of debt restructuring, as the mix of nationalities of the banks, the high respect in which they are all held in international banking circles and the fact they are investment/merchant banks (i.e. unlike commercial banks they do not lend much money directly themselves) insulated the Triad against the charge that its advice was tinged with self-interest or narrow nationalism.

Peru, Gabon, Ghana, Zaire and Turkey have used their advice, in the first two instances very successfully. Sri Lanka has also been added to the list but not because of any serious debt problem. The Triad have laid down certain rules in order to avoid any confusion between the respective banks occurring.

One is that the fees are split three ways regardless of which bank takes the lead in the relationship with a particular country. The second is that the bank which has most experience in dealing with a particular country will take the lead.

The Triad remains firmly on the borrower's side of the table in any negotiations with the commercial banks over debt restructuring. The reports it publishes regularly on some of its clients — notably Gabon — are accepted as gospel by the other banks and have the added advantage of being less politically visible than International Monetary Fund (IMF) reports and thus less likely to provoke strong reactions in the country concerned. This point is of growing importance as it remains very difficult for the IMF to advise Third World countries discreetly and without incurring the wrath of many for the harsh deflationary measures it usually proposes.

The Triad does not only help to arrange finance; it also advises countries on contract negotiation, on steps to promote foreign direct investment, on project finance and on the organisation or reorganisation of the domestic monetary system. The contract to advise Turkey came to an end at the end of last year.

Advisers

Other banks have also acted as advisers to individual countries or companies in the Third World—Dillon Read did so for the Algerian State-owned company Sonatrach for a number of years for instance—and First Boston did so for the Nigerians during the negotiations for a jumbo $1bn loan which they raised in 1978. In this instance however, the adviser was eventualy by-passed by the lending banks.

Some commercial banks resent the intrusion of merchant banks, yet it was not so long ago, early in the 1970s, that such merchant banks often led the lending syndicates.

This latter role has in recent years been taken over by those banks with more financial firepower. Such banks often accept that it can help for a borrower to have someone who knows the rules of the game advising him. It avoids misunderstanding and suspicions which often make negotiations between banker and borrower unnecessarily long and acrimonious.

For the Triad, their new-found role certainly adds a new element of competition to the market and provides a welcome new source—though undisclosed—of revenue.

Francis Ghilès

France's Credit Agricole

FRANCE'S BANKING system has a cuckoo in its nest.

Crédit Agricole, a mutualist body under state tutelage, owned by more than 3m members, has grown out of its special category—an intermediary for Government farm support—and now features in most standard listings nf fully-fledged banks.

By the size of its assets, the "green bank" is the biggest in France and number three in the capitalist world, a complex monster whose position and pervading presence has brought it into conflict with the rest of France's banking establishment.

This conflict is still unresolved after a second reform of Crédit Agricole's charter, which in exchange for an extension of its competence—in addition to the wider scope given to it in a first reform in 1971—imposes some important constraints, not least company tax.

The compromise bas left the orthodox banks with some lingering uneasiness about Crédit Agricole's privileges and sumptuous resources. On the other hand, there are growing complaints from within the Crédit Agricole that Government credit policy s preventing it from fulfilling its role—consecrated in the agreement—in the modernisation of rural France.

Newcomer

A relative newcomer among French banks (its central body, the Caisse Centrale, was set up in 1920), the network had a balance sheet total of FFr 422bn or about $100bn at the end of last year—an increase of almost 18 per cent since its new charter took effect a year earlier.

It now accounts for about 21 per cent of total banking credits outstanding in the country. Besides a near-monopoly in the farming sector, it bas become one of France's leading housing banks.

Although it is still prevented from making direct loans in urban areas, housing credits make up a good balf of its medium- and long-term lending. The amount multiplied by three between 1971 and 1977, soared by 69 per cent in 1978 and rose another 33 per cent last year, outpacing the growth rate in other credit categories.

Also far outside its original field, Crédit Agricole plays an increasing role in syndicated Eurodollar credits and international loan management. It also runs one of France's more imaginative travel agencies.

The body of Crédit Agricole is made up of 94 regional banks and over 3,00 local co-operative banks. Abve this body, the monster bas two heads. One is the Féderation Nationale du Crédit Agricole, which represents the regional units, carries out research and documentation and runs training programmes, but has no financial activity.

The other is thet Caisse Centrale de Crédit Agricole, a pnblic establishment whose directors are appointed by the Ministers of Agriculture and the Economy but which has financial autonomy in co-rdionating and controlling the network, managing the central resources and providing capital for the regional *caisses*.

The executive echelons of this system bave sometimes been described as a parallel civil service. Private bankers tend to resent tbe power of mutualist banking more than they do the big nationalised commercial banks.

They still contest Crédit Agricole's favourable tax treatment and the monopoly of subsidised credits which Crédit Agricole shares with the Banques Populaires. And tbey fear that in two years Crédit Agricole will once more be allowed to wage tbe "high street war" of new branches in French towns.

The charge of unfair competition was one of two reasons why the Government felt it bad to change Crédit Agricole'a charter. The other was concern for development of farming reglons, where the bank's management was — and is — demanding better tools to carry out what it sees as its vocation.

The measures drawn up in November 1978, after long argument, include two permanent constraints. The most important is that the bank bas to pay company tax on its "surpluses" — nnt all, as the other banks wanted, but on two-thirds. This is designed to exempt its genuinely mutualist activity — its business with farming members.

The effect bas been a sharp reduction in the bank's atill massive net profits. Although final figures were not published at the time of writing, 1979 after-tax earnings were expected to be just over FFr 1bn compared with FFr 1.9bn in 1978, a year when they included some exceptional profits carried over from previous years, and FFr 1.05bn in 1977.

The bank's operating profits have, however, continued to rise — from FFr 966m in 1977 to FFr 1.18bn in 1978 to FFr 1.35bn last year.

The other permanent constraint is a pledge by Crédit Agricole to moderate its growth in the bome-savings market and to play instead a more effective role in placing bond issues by public enterprises and financial establishments.

In addition the bank bad to bow to two temporary measures —a four-year freeze on its advertising budget and a three-year pause in the opening of new branches in non-rural boroughs.

Extension

Crédit Agricole's sida of the bargain was a widening of its special range of activity. First of all, the definition of where it could make loans was exteoded from boroughs of up to 7,500 inhabitants to those of up to 12,000.

Secondly, it was given responsibility for everything to dn with the food industry, even outside rural areas — processing, storage, distribution, export and foreign marketing.

Thirdly, it will be able to finance all kinds of small and medium-sized industry (up to from 1981 onwards.

This means the bank can now finance almost all activities which are outside big towns or which involve farm produce.

A major shareholder alongside the state in tha Industrial Development Institute, it has a strengthened industrial role. It also bas a potential extra clientele of several million.

But in order tn carry out its redefined role, Crédit Agricole feels it needs more leeway in the Government's tight credit policy. Its "envelope" of subsidised credits has been increased by 11.4 per cent this year to FFr 15.7bn from FFr 14.1bn.

While thisp resents no problems as far as mediu-m. and long-term far mloans are concerned, Crédit Agricole says it will have difficnlty meeting some other traditinnal commitments and exploiting the new npenings.

It warned a year ago that creditc urbs would bave to be defined in such a way as to take account of the extension of its activities. "Otherwise the reform would remain inoperative."

The growth ceiling for loans whibc come under Government credit limitations is set this year at 5 per cent; and for the first time the curbs apply to finance for crop storage. Initially the requirement was estimated at FFr 3bn, but it is now reckoned that a further FFr 2bn may be needed.

The Caisse Nationale has recommended the regional *caisses* to break the rules if necessary and risk being fined.

Crédit Agricole is equally unhappy about higher interest rates, which on its ordinary subsidised loans went up from 8 to 9 per cent at the end of January.

For the Government, the reason is simple: to reduce the escalating cost which is incurs by supporting soft farming loans.

Special rates for land purchases, young farmers, livestock development, calimity relief and so on had stayed unchanged for years while normal interest rates rose and the state had to cough np the difference.

Even with the higher interest rates, which do not apply to *ynung farmers* or priority modernisation measures, the FFr 15.7 credit "envelope" represents a state subsidy of FFr 3.7bn, the Government says, which is rather more than the FFr 3.3bn set down in the 1980 budget for direct investment in agriculture.

Overall budget for subsidising loans — which still include some outstanding 3 per cent credits — is being kept at last year's level of FFr 5.3b nafter a seriea o fsteep increases. The proportion of interest taken care of by the State rose from a naverage of 3 per cent in 1970 to more than 5 per cent last year.

But Crédit Agricole says farmer's investment capacity may suffer as a result of the increase.

It is unlike most other banks in that it comes under pressure from its grass roots — the localcooperative bangs and the farmers themselvea.

The regional *caisses* have been pressing for greater autonomy from the Caisse Centrale. And farmers' organisations have been almost as concernec as the mainstream banking esablishment that Crédit Agricole should not abandon its special vocation and become a universal bank.

David White

Germany's Bayerische Vereinsbank

THE Bayerische Vereinsbank has acquired the reputation in recent years of being one of the fastest growing banks in West Germany, and at least in terms of its annual business voluma its record stands comparison with the giants nf West German banking such as the Deutscbe Bank, Dresdner Bank and Commerzbank. It is against sucb rivals that it must be compared, for the Bayerische Verein itself ranks fourth among West Germany's commercial banks and claims 23rd position on world lists.

It is often regarded as the Federal Republic'a largest commercial regional bank — as distinct from the Landesbanks, the publicly owned banks of the separate West German Federal States—but for several years it bas been expanding well beyond the bonndaries of its originol world, the kingdom of Bavaria.

Unlike the "Big Three" commercial banks in West Germany, the Bayorische Vereinsbank, and the other major regional banks, the Bayerische Hypo and the Norddeutscbe Hypotbeken-und Wechsel-Bank, are not only allowed to conduct regular banking business; they can also grant mortgage loans in their own right. The other commercial banks bava to carry out mortgage business through subsidiaries. This circumstance, caused by historical accident, has bad a strong influence on the way the Bayerische Vereinsbank's domestic bosiness bas grown and last year the mortgage business accounted for some 36 per cent of the parent bank's balance sheet total of DM 48bn. The mortgage business of the bank bas always been conducted throughout Germany, but it is only in recent years that the Bayerischbe Verein baa also pusbed its commercial banking business beyond the frontiers of Bavaria.

Its expansion since the end of World War II has come in a number of distinct phases. Growth immediately after the war was tied closely to the rapld industrialisation of Bavaria itself, one of the fastest growing regions in the whole of Germany. The Bayerische Verein then started the process under its most famous post-war chairman, Baron Tucher, of looking beyond its home State for growth of business.

In a series of takeovers or part-acquisitions it purchased a number of small private banks or took substantial shareholdings in banks in cities such as Hambur, Düsseldorf, Frankfurt and Saarbrücken. At the same time a parallel process was bappening abroad as the bank moved to take a stake in the burgeoning international banking business. The expansion of the West German Institutions abroad has been one of the major developments of world banking in the last decade and the Baycrische Vereinsbank was one of the first to decida to establish itself in the world's major banking centres under its own name.

As a result the Bayerische Vereinsbank has now largely completed the establishment of its network of foreign branches and representative offices, according to the chairman of the executive board, Dr. Max Hackl. The bank already has branches under the name of the Union Bank of Bavaria in New York, Cbicago and Los Angeles with subsidiary offices in Atlanta and Cleveland. Further branches have been set np in the Cayman Islands, London and Tokio.

Perhaps more significantly as a pointer to future trends the Bayerischbe Vereinsbank has also become the first West German bank to jnln what is so far a unique banking venture in the Eastern bloc. Together with its other eWstern partners—banks from Austria, Japan, France and Italy—it has taken a stake in a new bank formed in Hungary, the Central European International Bank. The Hungarian National Bank has only a minority 34 per cent asbare and the remaining interest is shared equally among the six Western partner banks. It could bardly have chosen a more hostile moment to start its existence within the minefield of East/West relations, but Dr. Arno Puhlmann, the Bayerische Vereinsbank's director responsible for international business, is confident that the Hungarian bank can emerge as a new vehicle for co-operation between Western countries and Comecon members.

Its more immediate goals on the domestic front are the further expansion of its network of branches away from Bavria and through the majnr conurbations along the Main and Rhne. Offices are opening in Bonn, Koblenz, Trier and Düseldorf. In the Saarland Bayerische Verein is in the process of incorporating its 100 per cent aubsidiary Röchlin Bank under its own colours, but in other cities its subsidiaries and interests such as Simonbank, Düseldorf (94.8 per cent) and Bethmann Bank, Frankfurt (90 per cent), will bold their separate identities—at least for the moment.

Kevin Done

مكرامن الأصل

Hongkong and Shanghai Banking

THOSE WHO KNOW a little about the Hongkong and Shanghai Banking Corporation (HSBC) know it to be a very British and very colonial institution run by a class and race consciouа breed of English public school products who once ran a whole empire.

Those who know even less about the HSBC know it to be somethingk vaguely Chinese from the mysterious East which has grown rich in inscrutable ways and ia involved in all kinds of exotic activities outside the field of safe commercial banking.

Like all caricatures, such perceptions bave some basis in reality. The much bigger and more important reality, with which bankers and financial markets in Britain and the U.S. are only gradually getting to grips, is that the Hong Kong Bank is actually a very large, somewhat ponderous and conservative organisation which is much like other large business organisations.

It is different from UK and American banks because it grew up io a different environment. because it exists in a unique place—Hong Kong. But essentially, the group is really very ordinary. So ordinary in fact that its senior executives seem almost puzzled that the group is as big as it now is, and puzzled that their acquisitions have attracted the attention, and sometimes oppositinn, that they bave.

This year the HSBC arrived in the big league of international banks with its acquisition (to be completed later in the year) of 51 per cent of Marine Midland f New York et a cost of U.S.$314m (£139m) mainly in badly needed new capital for the American bank.

Marine Midland is the twelfth largest bank in the U.S. and bas total assets of U.S.$15.7bn, not so much smaller than the HSBC group's U.S.$25.3bn end-1979 balance sheet total.

As well as landing this big fish, HSBC is also in the process of swallowing a minnow, Anthony Gibbs, the UK merchant bank. It is paying some U.S.$35m to acquire the 60 per cent f Gibba that it does not already own.

It is indicative of some of the suspicion, if not antipathy, that HSBC sometimes faces in the West that it took almost two years for the Marine Midland deal to go through.

It was mly finally approved when Marine Midland acquired a national cbarter in the U.S. to escape the politically motivated obstruction of New York State authorities. The Gibbs acquisition was followed by Gibbs' removal from the supposedly prestigious London Accepting Honse Commitee.

Epitome

The tinge of unease with which the HSBC la sometimes regarded in the West is in complete contrast to its image in Hong Kong and throughout South-East Asia, where it is seen as the epitome of solidity and conservatism and more likely to be criticised for its alleged stick-in-the-mud attitudes than for adventurist moves into such areas as oil tankers.

The Hong Kong Bank does not see itself as e banque d'affaires on French lines making direct links between banking and equity investment. And it is certainly not like the big Japanese banks serving as the hubs of industrial and commercial giants.

But in common with most long-established major banks in South-East Asia it haa not been shy of taking equity participetions in non-financial institutions from time to time.

These investments bave tended to attract attention out of proportion to their importance to the group. By far the largest of them is HSBC's stake io two of the major components of shipping magnate Sir Y. K. Pao's World Wide shipping group. The bank's shara of the paid-up capital of these ia U.S.$33m.

Other significant non-financial investments are a 25 per cent stake in Cathay Pacific Airways, and 43 per cent of the Sooth China Morning Post, a very profitable publishing concern. A 21 per cent stake in Hutchison Whampoa, a big trading and property group acquired during a bailing out operation in 1975, was sold last year to property group Cheung Kong. Divided income from the shipping and airline interests was HK$89m (£8m) last year, or 8.7 per cent of group consolidated earnings.

The relative importance of these non-financial activities bas been declining and thet ia likely to continue because almost all expansion bas been into merchant banking, leasing insurance and other financial services. One exception to that trend is a recently announced joint shipping venture with Cbina through World Finance International, a company which links HSBC, YK Pao and the Industrial Bank of Japan.

Whatever the strengths and weaknesses of the HSBC's banking management, it has always sbown a keen political instinct. It has a branch in Shanghai whicb even survived China's cultural revolution. The bank and its long-time close associate Pao bave now found added favour with China.

Meanwbile, another local entrepreoeur with close China links, Li Ka-Sbing of Cheung Kong bas joined the HSBC Board. The bank's cementing of its ties with Li, the king of Hong Kong property devalopers, has strengthened its position hotb in Hong Kong and towards Cbina.

In Hong Kong itself, the benk remains by far the most powerful single business institution. As a group, it manages to sustain its share of domestic banking at around 50 per cent, largely thanks to the success at the retail banking level of its 61 per cent owned subsidiary Hang Seng Bank, acquired during a banking crisia in 1965.

Many claim that the group'a size and power are unhealtby for an open economy. But its relative power as an institution is probably waning as the Hong Kong economy grows both more diverse and more international, and as the Government gradually assumes a larger role in management and regulation.

Rapid expansion outside Hong Kong in the past two decades doea not seem to bave been aimed at ensuring survival should anything happen to Hong Kong. More important, probahly, bas been the fact that it was generating massive profits from Hong Kong and its operations in South-East Asia, but found expansion constrained—in Hong Kong, by the size of its market share, and in its main South-East Asian operations in Malaysia and Singapore by regulations discriminating against foreig nbanks.

Its first big moves were the acquisitions in 1959 of two British colonial banks — the British Bank of the Middle East and the Mercantile Bank. Political turmoil bas now rubbed the gilt off the Middle East, but BBME bas picked up a little oil wealtb.

Pursued

International expansion has also been pursued via Wardley, the groups principal merchant banking arm.

Wardley's performance in the early 1970s showad that the HSBC'a power and weight were sometimes needed to overcome tbe group's inexperience outside ordinary commercial banking. But Wardley is now well established in its own right with offices in seven countries.

The profitability of the HSBC and its banking subsidiaries is not known because of undisclosed transfers to hidden reserves. Stockbroker Hoare, Govett recently estimated that true profits were on average about 50 per cent bigbar than disclosed ones. This is a subject that the bank itself will not comment on. But it is likely that tbe relative size of hidden transfers bas been increasing as the bank has moved to keep its capital base in line with the fast growth of deposits in an inflationary climate.

Philip Bowring

America's Chase Manhattan

AS THE first quarter's results from the major U.S. banks came over the wires in April of this year there was inevitably considerable interest In the performance of Chase Manhattan, the third largest U.S. bank with assets of over $65bn.

For the best part of five years, Chase has suffered the unenviable reputation of being seen as an institution struggling to come to terms with a more challenging business environment. In comparison with its rivals among the big U.S. money centre banks, Chase's performance in the 1974-75 recession was dismal. Its profits plunged from $182m in 1974 to $105m in 1976, partly because of tbe close on $1bn in loan losses (largely in property) it was forced to write off between 1975 and 1978.

As its problems visibly mounted so too did the criticism of its chairman, Mr. Rockefeller, who was widely judged to have fostered (or at least tolerated) too "clubby" and complacent an atmosphere in the bank.

With the evidence of the bank's weaknesses appearing starkly, in its quarterly earnings reports the Chase, under Mr. Rockefeller's continned leadership but with the bank's President since 1972 Mr. Willard C. Bntcber playing an aggressive role, set about transforming itself into e more professionally managed institution.

Strategy

With loan growth in its domestic market stagnating in the wake of the 1974-75 recession—partly because major companies were refinancing themselves in the bood market but also because of competition from the commercial paper market—Chase pressed ahead with building up foreign earning assets. These grew from $12bn to $22bn between 1975 and 1979. The significance of this side of the Chase's strategy can be seen from the fact that in 1976 overseas earnings accounted for 82 per cent of net income. By 1979, however, the figure was down to 47 per cent of net income, which by that point bad recovered to a healthy $311m.

The growth in net income from the earlier disasters was one encouraging sign for Chase's shareholders that tha quality of decision-making in the bank was improving. But as Mr. George Salem, bank stock analyst with New York stockbrokers Bache remarks in a recent analysis on the bank "only wben tested In difficult times, as 1980 and 1981 are likely to be, can management's skills be truly measured."

It was with this rule-of-thumb in mind that analysts were keenly interested in the Chase's first quarter figures for this year, fo rif the bank was going to fall at the first really challenging fence then it would qnickly become apparent during this period of sbarply rising interest rates and deteriorating business conditions.

The figures wbich the Chase prodnced were widely seen as reassuring. Exclnding a special item relating to the sale of a minority interest in a foreing bank, Chase improved its net income by 10 per cent, a commendale performance compared with some of its competitors. More significantly perhaps, its return on eacb $100 of average assets slipped only a fraction from 51 cents a year earlier to 50 cents.

It is of course early days for tha Chase and there will be plenty of challenges ahead in the next two years and beyond. But already it is beginning to look as if in the U.S. et least they will not be quite as daonting for the banking indnstry as they threatened to be.

Stewart Fleming

Merrill Lynch of the U.S.

FOR MERRILL LYNCH, the largest U.S. securities house, the announcement in January that Mr. David Montagu and Mr. John Craven, two of London's better known bankers, were joining the organisation represented something of a milestone in the development of one of the firm's less widely publicised operations—mercbant banking.

Mr. J. Arthur Urciuoli, president of Merrill Lynch International (MLI) — within which the investment or merchant banking subsidiaries fall — concedes that it is not until a banking firm has acbieved a certain size and status (and convinced the financial world that it is in the business for the long haul) that it can "attract that sort of person."

To many of the investors owning stock in Merrill Lynch the fact that the company has an international banking arm with balance sheet total of $1.2bn might come as something of a surprise.

Merrill Lynch is one of the outstanding business success stories of the past decade. Its total assets have grown five-fold to $10bn, its total capital has more than doubled to $784m, dwarfing its Wall Street rivala, and the range of its services has set a atandard for competitors to aim at.

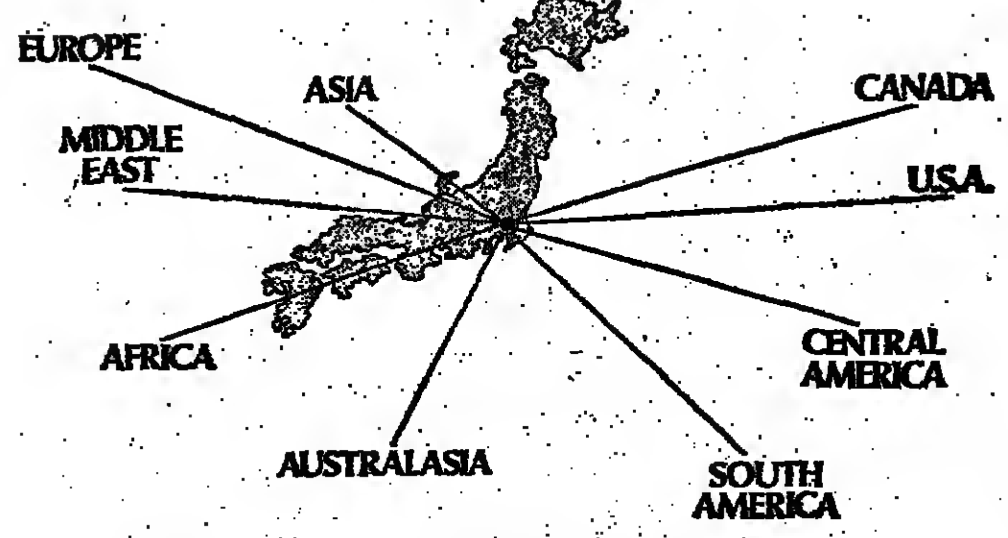
It was a decade ago that Merrill Lynch began the diversification programme wbicb led it to break out of the narrow confinea of securities business, and shortly afterwards, in 1972, the company laid the foundations for the development of Merrill Lyncb International Bank, of which Mr. Montagu is now chairman and Mr. Craven deputy cbairman and chief executive. The bank began life as a joint ventnre between Merrill Lynch and tbe London merchant bank Brown Sbipley —althougb today Brown Shipley's stake is down to five per cent.

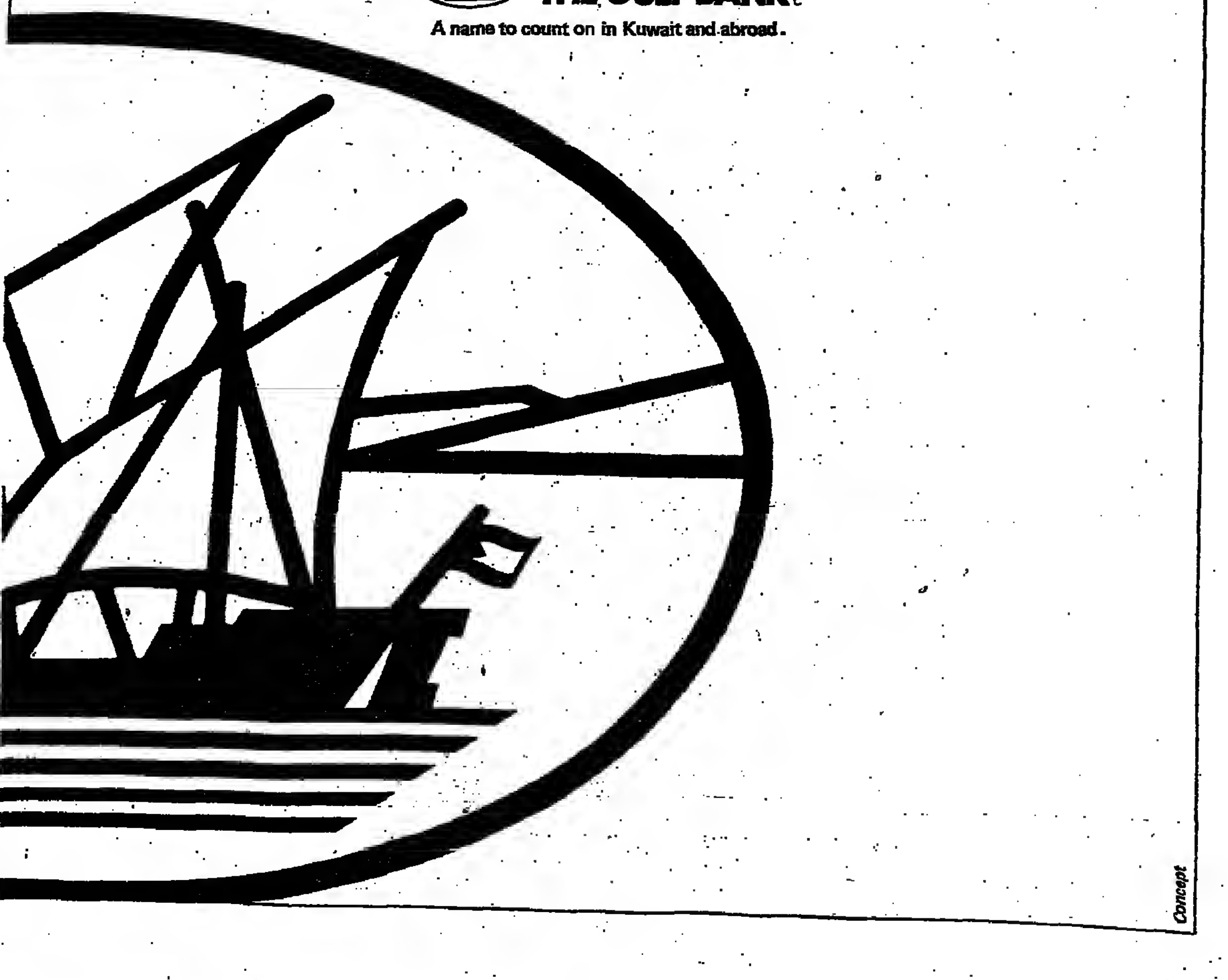
Merrill Lyncb International Bank's role, according to Mr. Urciuoli, is similar to that of the traditional merchant banking house. "We have always adhered to the investment or mercbant banking style but we are interested in the diversification in the number of clients we serve . . . so that we will build into a bigger mercbant bank," he says.

"We have no corporate goal in the sense that we would like to become a giant international bank," he adds. "Our emphasis is on earning fees by managing business. Our business is not making ten-year loans to developing countries and spreads of one-eigth."

MLI's balance sheet totel rose last year from $799m to $1.23bn. The banking side is overwbelmingly commercial (not retail) and includes a certain amount of traditional commercial banking (loans totalled $370m at the end of 1979) but also corporste finance and trading (including foreign exchange trading which is being expanded). The hank meneged or co-managed $7.2bn of international financing in 1979 in the Euromarkets and In the U.S., both public offerings and privete placements of syndicated credits.

Stewart Fleming





Surplus oil States lack liquidity

THE MIDDLE EAST

RICHARD JOHNS

IN 1980 members of the Organisation of Petroleum Exporting Countries are expected, by general consensus, to generate a surplus of no less than $100bn and perhaps as much as $120bn. Longer-range forecasting must have an element of speculation about it. Yet here again the gloomy assumption is that over a five-year period a accumulative surplus of up to $500bn may have been recorded. The greater part of whatever the total proves to be, probably about 80 per cent, would accrue to four producers which have always been regarded since 1972-3 as destined to have considerable excess revenue over expenditure: Saudi Arabia, Kuwait, the United Arab Emirates and Qatar.

The supreme irony is that all four of these producers, for various reasons and to a greater or lesser extent, have suffered internally from liquidity problems arising from high-interest rates elsewhere that for other reasons puzzle their governments as they set about investing the excess funds.

In this situation Saudi Arabia presents the biggest paradox. There Islamic strictures and inhibitions against usury are stronger than ever. Thus, the existence of interest on advances and deposits is still not officially acknowledged, being called "commission" instead. In practice, many private Saudi bank customers will not accept anything more than 2-3 per cent on their deposits. For the same reason the Saudi Arabian Monetary Agency, established in 1953, has never been given the title of central bank.

Notwithstanding such a traditionalist environment SAMA has been pragmatic in facing up to the outflow of funds in search of higher interest rates but has been of some concern to the Government. The latest available statistics for the year up to last November show demand, quasi-monetary and foreign currency deposits to have grown from 38.19bn Saudi riyals to SR 42.55bn ($12.77bn), or only 11 per cent. In contrast, loans to the private sector increased over the same period from SR 14.14bn to SR 25.86bn, or 82 per cent, and foreign assets by 47 per cent from SR 11.61bn to SR 17.08bn. Altogether the drain of private funds is reckoned to have been anything from $3-5bn.

Despite the Saudi taboos as well as endemic concern about inflation, interest rates have been allowed to rise in the face of higher demand for credit.

For prime borrowers rates vary from 7½ per cent or less to about 9 per cent on long-standing facilities. Rates for additional lines are 12-14 per cent. For new customers and non-Saudis the interest on loans reflects the 17-18 per cent prevailing in the inter-bank market.

Commercial houses of indigenous origin have profited most from deposits on which only low commissions are paid. In the forefront is the National Commercial Bank. Last November it had assets of SR 23bn out of consolidated total for the sector in the Kingdom of over SR 100bn following a fiscal year in which its profits doubled to SR 600m. At that point the Riyad Bank's balance sheet stood at SR 17.08bn. Until recently they alone were permitted to expand into the interior and have a branch in the capital Riyadh, a privilege that was only accorded to Citibank of the previously foreign-owned bank. Citibank has been the last to submit to "Saudi-isation" law promulgated in 1977.

With its circumscribed economic base, limited scope for internal development and more sophisticated private investors Kuwait is still more obviously strained by high interest rates abroad. Once again last month Mr. Abdul-Rahman al Atiqi, Minister of Finance, went out of his way to deny that the Government was prepared to contemplate a higher limit on interest rates. Out of respect for traditionalist feeling and for fear of offending citizens who see cheap credit as a right, the three-year-old ceiling (formerly 7½ per cent for all loans), of 8½ per cent for lending up to 12 months and 10 months for longer periods looks likely to remain in being for the foreseeable future. Exchange controls are out of the question. So, too, is any significant revaluation against the dollar that might make private investment abroad less attractive and make Kuwaitis think more seriously about possible exchange risks. Thus, the Government and the Central Bank continue to resort to the palliative measures imposed since the flood of money leaving Kuwait became a torrent last summer.

Apprehension about regional stability appears to have been a minor factor behind the outflow of funds from Kuwait compared with Saudi Arabia. That much seems emphasised by the frenzy of speculation in the shares of offshore Gulf companies, as well as in gold transactions. The Central Bank has correctly attributed the large outflow to the investment opportunities afforded by higher interest rates elsewhere. The Government's ban on the trading in shares of Gulf companies in Kuwait itself appears to have had only a marginal effect, though the flow has diminished for other reasons, related to more sober calculations by investors. The suspension of issues of KD-denominated bonds has merely underscored the fact that, with their low yield and their close linkage of the currency to the dollar, they had not become an attractive investment, anyway. With better effect the Government has increased spending on land acquisition, one of the time-honoured Kuwaiti methods of distributing the state's wealth, to ease the tight liquidity situation. The artificial lending rate structure restricts the Central Bank's ability to control the commercial banks.

The liquidity crisis has generally high-lighted its impotence. Its action, has been limited largely to injecting funds into the system through swap facilities and a discount window—KD 319m and KD 374m in the latter half of last year, an intervention that has continued in 1980.

Advances

As it is, there will have been little change for the better in the ratio between lending and deposits. At the end of 1979 outstanding advances stood at KD 2.11bn, up 34 per cent over the year, compared with all deposits of KD 2.18bn, only 17 per cent higher, all of it placed at more attractive longer-term rates. A large part of the increase in borrowing was devoted to the conversion of dinars into foreign currency deposits or investment elsewhere. As a result the six commercial houses operating have had to bid on the inter-bank markets at home and abroad, with a resulting increase in foreign liabilities—over 25 per cent last year to KD 810m. Nevertheless, it proved another good year for the banks with the rise in profits ranging from 35.5 per cent for the Gulf Bank to 12 per cent for the commercial bank of Kuwait. In a restricted field the National Bank of Kuwait remained the largest with assets of KD 981.8m.

KD issues, still suspended, have been one casualty. From 1974 to 1980 their value has been KD 380m, or more than $1.4bn, with an increasing proportion (over a quarter) being accounted for by Arab borrowers. The privately-owned Kuwait International Investment Company has established itself in the management and underwriter forefront ahead of the Kuwait Investment Company (50 per cent State-owned) and the Kuwait Foreign Trading Contracting and Investment Company (80 per cent State-owned), arranging six out of a dozen issues last year worth KD 40m out of KD 106m. Yet before the suspension of issues last year it had become clear the market was in decline because of the low yield and the loss in value on the secondary market.

Kuwait's system, however, is basically a solid one and especially so when compared with that of the United Arab Emirates. Despite President Zayid's long-awaited approval for the establishment of a Central Bank last November it has still not been established partly because there has been no agreement perhaps because of the continued misgivings felt by Sheikh Rashid, Ruler of Dubai, about channelling his oil revenues through such an institution. With the crisis three years ago and the collapse of two banks as a result of the deflation of the construction boom a Central Bank became a vital necessity urged both by the International Monetary Fund and the Bank of England. A more vigorous, reformed Currency Board has managed to assert a minimal stability.

Agreement has apparently been reached between Sheikh Zayid, who is Ruler of Abu Dhabi, and Sheikh Rashid of Dubai on a mutually acceptable Governor—Sheikh Surour, a member of the former's family. In March both were reported to have stated, not for the first time, their willingness to contribute 50 per cent of their respective revenues, which this year should total some $20bn, to the Federal Government through the proposed Central Bank. Such an arrangement would, at least, give it the power to control the exchange rate and the availability of dirhams. Hitherto, the monetary authority of a political entity boasting, in technical terms, the first or second highest per capital income in the world, has been starved of funds and saddled by its previous management with loans that may be hard to recover. A timely inculcation of funds last December (presumed to be from Abu Dhabi's ample resources) gave it reserves (excluding minimal gold holdings) of Dh 1.432bn, just over the 70 per cent of currency in circulation required of it. It had sunk to Dh 1.145bn at the end of February. Meanwhile, with inadequate powers and means, it has had to attempt the supervision of 54 banks with 350 branches, as well as a handful with restricted banking licenses given mainly for offshore operations, catering for a population of 1m or so.

The difficulties of the weaker bretheren of the community can be seen from the Dh. 1bn in outstanding loans by the Currency Board to the commercial banks at the end of last year. The statistics show even more strikingly the liquidity problems that have trended to grow worse in 1980 and dependence on borrowing from abroad, a process facilitated by the preponderance of wholly or partially owned foreign institutions. Advances, including those to the oil poor Emirates, totalled Dh. 25.34bn, up 15 per cent on the end of 1978. Deposits stood at Dh. 20.61bn, up 12 per cent on the Dh. 18.36bn recorded 12 months previously, with most of the increase being accounted for by those by the Government (mainly the working funds of the Abu Dhabi Government).

According to UAE Currency Board estimates, only 10 banks control no less than two-thirds of banking business in the UAE. Profiting from the handling a large part of Dubai's state revenue and government business (a fact not unrelated to the Ruling Family's ownership of a substantial share of it) the National Bank of Abu Dhabi accounts for about one third of total assets. The National Bank of Dubai has a similarly priviledged position in the state which is the commercial hub of the UAE. So, to a lesser extent, does the Bank of Oman (locally owned despite its name). The NBAD has taken the initiative in helping to develop a secondary market through the issue of certificates of deposit, thus giving some stability to the market.

Orderly

Banking in Qatar has been a self-contained and orderly affair by comparison with the UAE. It remains so but the system has not been immune from the stresses and strain suffered by the bigger neighbouring surplus oil producers, over the question of interest rates and the liquidity. The title of the Qatar Monetary Agency indicates the same reservations about usury as Saudi Arabia's. Its development has been cautious in character with the state itself and only this year did the state take responsibility for interest rates that had been previously been regulated by an inter-bank agreement. Such self-government was made easier by the

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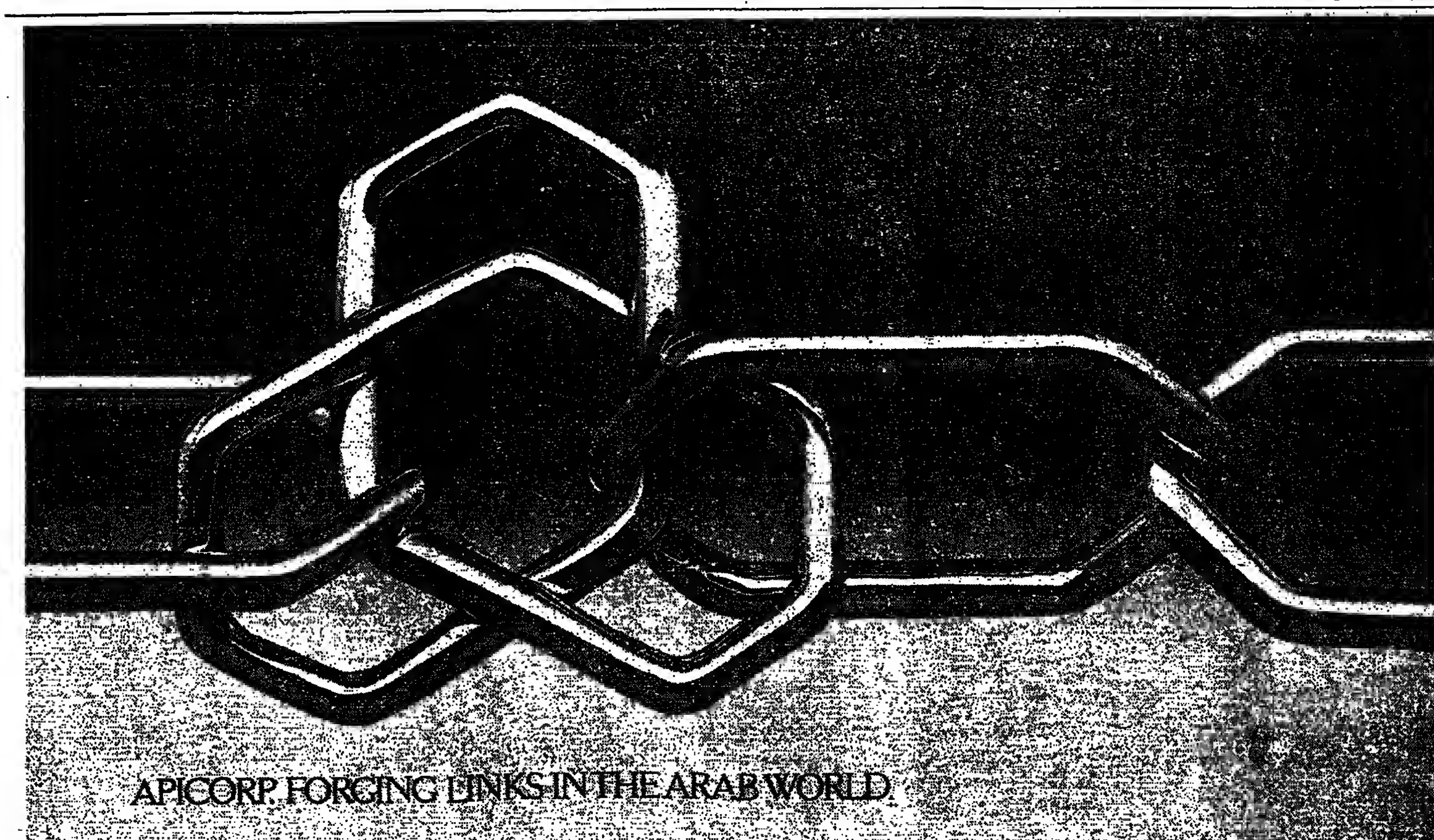

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Among the world's top financial centres

SINGAPORE

KATHRYN DAVIES

SINGAPORE IS poised to turn itself into a financial supermarket offering an increasingly sophisticated range of services through a variety of financial institutions.

The Government and the Monetary Authority (MAS) can look back with some satisfaction over the past 12 years since the birth of the Asia dollar market—the brainchild of the Singapore branch of the Bank of America. The Government quickly saw merit in the idea and stole a march on its financial rival Hong Kong by agreeing to lift the 40 per cent withholding tax on interest on deposits. Within a year there were 90 Asian Currency Units (ACUs) — the separate units, usually within banks, licensed to deal in Asiadollars.

Total assets and liabilities climbed from $30m in 1968 to $27bn 10 years later—and they now stand at more than $40bn. Although this may seem insignificant in comparison with the $1,000bn Eurodollar market, it has enabled Singapore to become Asia's most important money and capital market for foreign currencies and has played a major part in turning the city State into one of the world's top five international financial centres.

Taking advantage of its excellent strategic position and good communications, Singapore has also become an important link in the global foreign exchange network. At the end of each day Singapore hands over to London, Frankfurt and Zurich. At the beginning it takes over from Tokyo and San Francisco. Daily turnover on Singapore's foreign exchanges has risen from $350m a day, six years ago to a current $4.7bn—partly in reflection of the volatility of foreign exchanges in recent years bnt also because of the number of acus in Singapore, more than a hundred.

Although Singapore is a major trading centre, but much foreign exchange activity relates to trade and since the lifting of exchange controls in 1978 there has been a rise in currency speculation. The MAS in particularly worried about a currency "swap" system by which some banks bave avoided its reserve requirement of 26 per cent by "swapping" Singapore dollars for, say, U.S. dollars though the bank's ACU.

The higher volnme of movements of Singapore dollars in and out of the country makes it difficult for the MAS to control the mooey supply. It has used "moral persuasion" to get the banks to stop this practice but not all of them have done so.

Less successful as part of Singapore's international financial activties bas been the Asian dollar bond market, although there are recent signs that the recovery of the Eurobond market may be duplicated here. While there is now adequate managing and underwriting expertise to bandle bond issues in Singapore, bankers cite the market's lack of liquidity as an impediment to growth. However, certificates of deposit (CDs) have met with greater success, particularly the longer term floating-rate CDs and Singapore ranks third behind London and New York as the most important internatiooal free market, primarily because of Japanese participation.

Another area in which Singapore's achievements bave not lived up to its hopes is in the area of syndicated lending.

Complaining

Foreign bankers bave been complaining that legal expertise in particular is lacking in the field of international banking transactions, sucb as Euro-MAS is unhappy that so much of this business has been finding its way to Hong Kong and bas recently given permission to a British law firm to set np a local branch to deal with corporate financing arrangements—a move not popular with local lawyers.

The Government also wants to turn Singapore into an international funds management centre, although Finance Minister Hon Sui Sen says that for now "this is merely a concept—its development must depend on the existence of people (with sufficient expertise) to come to Singapore." Mr. Hon has promised tax incentives to encourage them to do so. There is also a strong possibility that the Government will give the go-ahead for at least part of the Central Provident Fund (CPF)—Singapore's particular form of national savings—to be banded over to private managers, once a bigh-level official committee bas worked out the necessary safeguards.

Perbaps the most impressive tribute to Singapore's financial status is the enormous number of banks now in business in the republic—37 commercial banks with full licences, 13 with restricted licences, 43 offsbore banks, 36 merchant banks, 47 foreign bank representative offices, four disconnt houses and seven itnernational money brokers. In addition, a subsidiary of one of America's biggest steel companies, Armco, was given permission to set up a merchant bank earlier this year, a move whicb could open the door for other non-banking groups to enter the market.

Faced with this degree of competition, banks bave been offering customers all manner of incentives in a bid to attract deposits. Both local banks and foreign banks licensed to conduct domestic business also have to compete with the Government-owned Post Office Savings Bank (POSB), wbich has managed to attract the savings of more than 1.6m ont of a total populaion of 2.4m.

However, Singapore's banks generally enjoy good rates of growth and the local banks are now themselves "going international" and opening branches in Europe and the U.S. Bankers are optimistic about both Singapore's own economic future and about its continned importance as an international financial centre.

Long-term structural reforms on the way

JAPAN

STEPHEN BRONTE

EUROPEAN AND American bankers like to describe Japan's banking system as fragmented, compartmentalised, or Balkanised. Those descriptions are in essence correct. The modern Japanese banking system is a product of great swings in Government financial policies over the past hundred years as well as some radical reforms imposed on it by foreign powers. The result has been a banking system fraught with atructural anomalies that have been the source of no amall amount of aggravation for Japanese and foreign bankers alike.

Japan's early Meiji era economic planners originally modelled the country's banking system after that of the U.S. That led to the establishment of several small banks catering to local clientele. Towards the end of the last century that model was abandoned in favonr of an English system of universal banks that placed the newly created Bank of Japan at the apex. Then, to accelerate the development of certain strategic industries and regions of the country, a range of specialised Government banks was established. Private trust banks and securities houses came on the scene during the early part of this century.

The rise of the big "zaibatsu," or industrial conglomerates, sparked a series of bank mergers that was deliberately accelerated by the Government during World War 11. The number of Japanese banks shrank from a 1901 peak of 1,867 to only 64 by 1945.

After the war the American occupation authorities sought to "democratise" the Japanese economy by breaking up the biggest private banks and casting the Government banks into the private sector. Today's Industrial Bank of Japan, Bank of Tokyo, Dai-Ichi Kangyo Bank and Hokkaido Takushoku Banks are all descended from former Governmant banks that saw their umbilical cords to the Ministry of Finance cut. The Americans also succeeded in pushing a U.S. style securities and exchange law through the Diet in 1948 which separated the banking and securities industries.

Specialised

Today there are 86 commercial banks in Japan. This breaks down into 12 city banks, one specialised foreign exchange bank (the Bank of Tokyo), three long-term credit banks, seven trust banks, and 63 local banks. Each concentrates its business activities in specialised areas laid down by Japanese laws, although there has been some blurring of the boundaries between these banks in recent years.

The city banks dominate the banking industry in Japan. Around eacb city bank there cluster dozens, sometimes hundreds, of enterprises from every major industry. These banks engage in providing predominantly short-term credits to clients within their group. They found themselves through large nationwide networks of branches, Japan's short-term money markets (the call, bill discount, interbank deposit and gensaki markets), and more recently through the issuance of yen certificates of deposit.

Shareholding within the group is mutual, and companies in these gronps rarely switch main banks.

The three long-term credit banks specialise—predictably—in long-term finance. Ideally these banks were se tup to provide long-term funds to Japans capital-intensive industries. These loans were funded through the banks issue of one and five-year debentures.

The seven trust banks perform a similar function. They raise funds by isuing trust certificates to depositors. The money is then put into long-term investments, mostly bonds and stocks, and a few long-term loans.

The Bank of Tokyo (BOT) enjoys its unique status as a specialised foreign exchange bank for several reasons. It was first set up in 1952 to finance the foreign trade of a country that was critically short of foreign exchagne. Like the long-term credit banks it was allowed to issue one and three-year debentures (all other banks are barred from issuing similar securities in Japan). Today the BOT dominates Japans international banking business. It bas a ahare of Tokyo's foreign exchange market variously estimated at 20-25 per cent. It has also a 25-year bead start over the other big Japanee banks in the development of its international lending. Some two thirds of BOT's income is generated by its 300-odd overseas representations.

Most of the above banks are headquartered in Tokyo or Osaka and transact a large part of their business in those cities. Japan5s local banks are spread throughout the country's 47 pre-

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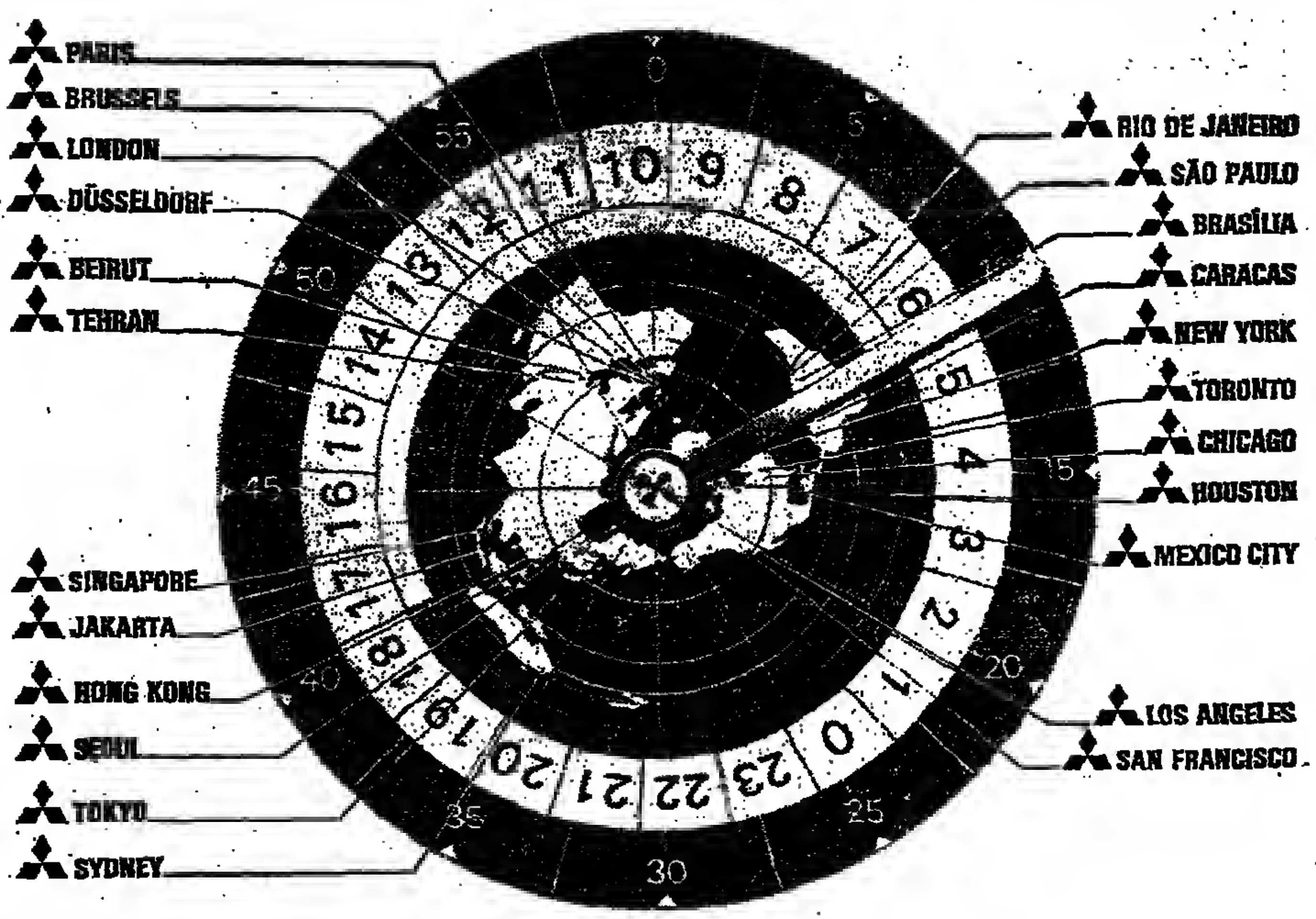
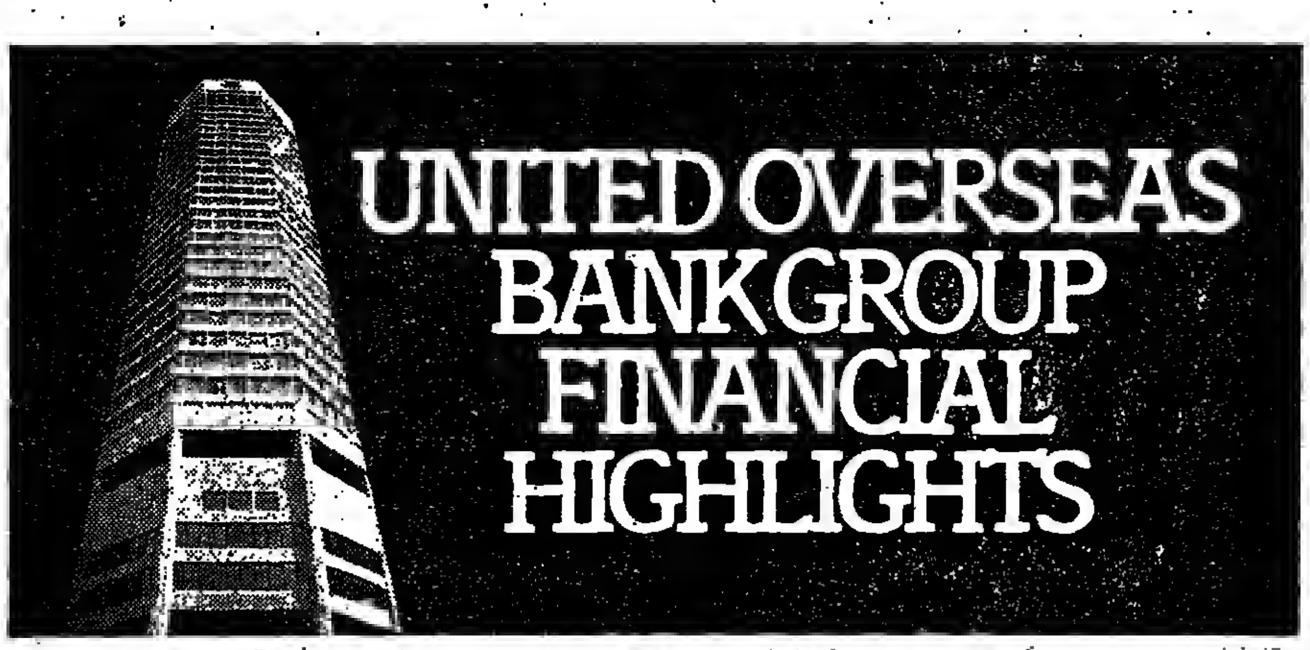




Cheap borrowing still the main feature

MALAYSIA

WONG SULONG

MALAYSIAN BANKING is becoming increasingly competitive. Local banks, particularly the larger ones, are moving away from their traditional role as mere deposit collectors and lenders and barnching out into new areas of modern financing.

Foreign-incorporated banks, restricted by official regulations, are feeling the heat of the rivalry.

Malaysia's banking system is organised largely around British traditions and concepts. At the apex is the central bank (Bank Negara) playing the role of currency issuing authority, lender of last resort and guardian of the nation's monetary stability.

Apart from the central bank, the Government's involvement in the banking industry is far more pervasive than is generally recognised.

The three biggest local banks — Malayan Banking, Bank Bumiputra, and United Malayan Banking Corporation —are run by Government nominees. The Government has also set up banks to service the special needs of the agriculture and heavy industries sector.

This strong Government participation in banking is part of the Government's new economic policy of encouraging more Bumiputras (Malays) into the corporate sector.

Prior to independence, Malaysian banking was orientated towards servicing the plantation, mining, and trading interests dominated by foreign agencies. Foreign banks were predominant.

Between 1969-79, local bank deposits rose from 36.4 to 64.7 per cent of total bank deposits. This meant an annual rate of incerase of some 27 per compared with 13 per cent for the foreign banks.

Nevertheless, foreign banks still account for more than 35 per cent of total deposits, and they retain some of the most lucrative clients and businesses, particularly transnationals.

Central bank directives on lending to the "priority" sectors remain irksome for many foreign banks, especially those with few branches and narrow deposit bases.

Under the directives, banks have to lend 17 per cent of their loans to Bumiputras by December 1980, 20 per cent to small scale enterprises, 10 per cent for residential housing, and 5 per cent for food production.

At the end of 1979, foreign bank lending to Bumiputras was ringgit 774m or 11.4 per cent of their total loans. The local banks, as a whole, had little difficulty in meeting targets to the priority sectors.

There has been some concern lately over the strong bank lending to the building and housing sector. Total credit extended for property development and house purchases amounted to ringgit 912m, or over 30 per cent of total new credit facilities for last year, compared with ringgit 626m or 23 per cent in 1978.

Cheap credit (the ceiling for housing loans below ringgit 100,000 is 9 per cent a year, while civil servants are charged only 4 per cent by the Government), rapid urbanisation and the shortage of new housing, has pushed property prices to dizzy heights, and a fair degree of speculative buying has crept in.

Rents are falling far behind interest payments (even at such low interest rates) and there is concern that by over-lending to this sector, the banking system could come under strain if the property market, which has been rising continuously since the early 1970's collapses.

The low interest rates in Malaysia continue to astonish most financiers. The prime rate of commercial banks has remained at 7.5 per cent since June 1977—one of the lowest in the world.

Prime rates in neighbouring Singapore are between 11 and 13 per cent, not to mention the higher rates in Hong Kong and Bangkok.

So far, the central bank appears to have succeeded in keeping interest rates low, consistent with its objectives of promoting economic growth, particularly private investment, with price stability.

There has been some outflow of capital but not in sufficient volume to cause concern. Some companies, particularly those with close links with Singapore, have taken advantage of cheap money in Malaysia to fund their operations, while export-orientated companies have delayed repatriation of earnings to benefit from higher rates overseas.

Discouraged

To some extent, capital outflows were discouraged by the relatively low rate of inflation, the strength and stability of the ringgit and the knowledge that Bank Negara would step in if heavy outflow of funds emerged.

The pressure for Malaysia to move into line with its neighbours on interest rates is increasing, although most bankers feel any upward revision, if it occurs, will be marginal.

New directives were issued by Bank Negara recently redefining the issue of bankers' acceptances.

BA's and negotiable certificates of deposit were introduced last May to add depth and scope to the money market, but problems emerged when the central bank refused to rediscount a number of BAs drawn by large foreign companies.

This prompted the financial community to question whether the authorities has gone back on their word to provide a "last resort" facility.

The central bank felt many large companies were abusing this facility and were creating too many BA's to get cheap funds from Bank Negara.

The authorities are also unhappy about the dubious financial standing of some companies. They expect banks to exercise prudence in underwriting BA's to such companies.

Under the new directives, the central bank has raised its rediscounting rate from 5.2 to 5.7 per cent to reduce the attractiveness in seeking in seeking rediscounting facilities with Bank Negara.

It will not accept three classes of BA's for re-discounting: those drawn by large, reputable companies which should be easily marketable, those drawn by companies of dubious financial standing, and BA's whose creation is considered artificial.

The 12 merchant banks in Malaysia are finding the going harder these days. Local commercial banks are now packaging their own loan syndications, replacing the "middleman" role of merchant banks.

There is not as much business as there once was for merchant banks to advise on equity reconstruction. Most of the major companies have already restructuered to conform with the new policy.

Bank Negara has *outlined* a role for merchant banks by telling them to reach a target of 30 per cent of their income from fee-based activities by December 1981. This target could be difficult for the smaller merchant banks, whose borrowing and lending operations are also limited by their shareholders' fonds.

Restructuring of the equity of some merchant banks, and mergers between them, are possible developments in the not too distant future.

Japan

CONTINUED FROM PREVIOUS PAGE

fectures and are concerned with taking small local desposits and lending the funds to small local businesses. With economic growth rates in rural Japan far lower than in the major metropolitan areas these banks have to grapple with their marginal profitability and with clients of much higher risk rating.

There are also hundreds of "quasi-banks" whose deposit and loan activities are so circumscribed as to prevent them being classified as true banks. The largest is Japan's postal savings system, which currently holds more than 20 per cent of the country's savings deposits. The Central Co-operative Bank for Agriculture and Forestry (the Norin Chukin Bank) acts as a central bank for Japan's thousands of agricultural co-operatives and rural credit associations. Japan's 72 mutual loan and savings banks work alongside the hundreds of credit-co-operatives and associations in providing credit to small businesses and consumers.

Japanese securities houses, especially the "Big Four," partially function as banks in that they enjoy a monopoly on all underwriting activity in both bonds and equities. Hovering on the periphery of the Japanese banking community are 64 foreign banks that have branches in Japan and 97 representative offices. But foreign banks have not been permitted to develop freely their own long-term sources of yen funding, so they have never accounted for more than 3 per cent of total lending in Japan.

corporations depend on a relatively small number of banks for short-term liquidity these banks have become the Bank of Japan's favourite means for implementing monetary policies. Each quarter the central bank issues "window guidance," or specific figures for new lending that each category of bank cannot exceed. In this way the BOJ has been able to control the growth of the money supply and the level of economic activity without manipulating the country's discount rate unduly. The result has been a level of interest rates lower than market conditions would normally have permitted.

Resolution

In recent years the Japanese banking community has begun to deal with a number of long-term structural issues. The resolution of these issues over the next decade will fundamentally change the character of Japanese finance. Perhaps the most important of these issues has been the entry by Japan into an era of relatively slow economic growth. This has caused the financing needs of Japanese corporations to drop as they adopt more conservative expansion plans for the future. Whateever funds they do require are being raised through less expansive direct means, such as the issue of stocks, bonds and convertible bonds at home and abroad. A larger share of funds is also being raised through foreign currency loans. The net result has been a dramatic fall in new lending by Japanese banks.

To offset these losses the big city banks have been moving steadily into consumer finance, an area previously ignored by them. This has begun to squeeze small local financial institutions that have traditionally depended on this field for a much larger share of their business. Reduced lending by the big banks has also cut their own funding requirements. This has further hurt the chronically cash-heavy local banks because they now have fewer opportunities to invest their excess deposits with the large banks.

At this point national politics enter. Because local financial institutions supply funds to rural areas that have far more electoral power than the cities, the Ministry of Finance (MoF), dominated by the country's ruling Liberal Democratic Party, has pursued policies designed to protect these institutions. It allows them to offer higher deposit interest rates than the large banks. It also provides financial support whenever these small banks run into liquidity problems.

These domestic political priorities have made reform of Japan's interest rate structure difficult. Lending interest rates have mostly been freed in the last few years. But in a country where the savings ratio is frequently over 20 per cent reform of deposit interest rates is a political hot potato that the MoF would rather avoid.

To circumvent this problem the MoF has dusted off its old wartime policy of concentrating the banking industry. It wants weak rural financial institutions to merge with city banks. But the small banks oppose this policy because the careers of individual staff tend to stagnate once their office has been merged with a bigger bank.

Of more immediate concern to the big banks is the increasingly swollen level of public debt in Japan. In fiscal years 1979 and 1980 alone Japan's budget deficit amounted to $118bn. This deficit is financed largely through the issue of long term Government bonds.

Japanese banks have been persuaded through the MOF's "administrative guidance" to buy over half these bonds. This has strained the bank's own liquidity positions by tying up an ever larger portion of the banks' assets in Government paper. When Japanese interest rates started to rise last year secondary market prices for these securities plunged, with serious effects on bank profits.

MOF has partially alleviated the situation by allowing the banks to change accounting methods to cover up some of these losses. But the Government's reluctance to raise taxes significantly, for obvious political reasons, insures that these large deficits will continue for some time.

Profits fail to match growth of assets

CANADA

W. L. .LUETKENS

UNPRECEDENTEDLY high interest rates caught the Canadian banks in a profit squeeze which marred the first half of their current year of account to October 31 next. Rates then dropped sharply but may have overshot. Besides, with recession developing, demand is expected to fall.

Most analysts expect nothing like a repetition of the 13 per cent growth of bank profits dnrin·g1978-79, let alone of the growth of more than a third in the year before.

Two figures for the quarter to January 31 illustrate the point: aggregate assets of the chartered banks were 20 per highe rthan a year before; but profits were only 0.5 par cent higher. Second quarter figures are not expecte dbefore the end of May, but are unlikely to be better.

Profits apart, political uncertainties have been sharply reduced by the referendum on May 20 when voters in Quebec rejected the idea of sovereignty for their province. That removed one strong reason for keeping interest rates high to protect the exchange rate. But on the other hand inflation remains strong and the future of Quebec is far from settled.

Moreover, the return to power in February of Mr. Pierre Trudeau and the Liberal Party has worried the business world. It has thrown into the melting pot Canadian energy policy—probably the central economic issue in the country—and has raised the possibility that budgetary deficits will continne.

For this year the central Government is likely to have to borrow some C$12bn (about £4.4bn). Moreover, Mr. Trudeau has been making nationalist noises which could frighten off foreign investors whose funds are traditionally the element that balances Canadian external payments. This year a current deficit of C$6.5bn-7bn is in prospect.

On the economic side, Canada has hopes that it will get by with a recession less deep than that in prospect in the U.S. But little growth is expected in 1980, following last year's creditable increase in GNP of 2.9 per cent. From 1981 on, things should once again improve.

In the longer run, the country'a economic prospects must be considered bright. It is a net exporter of energy, though the self-set target of self-sufficiency in oil (as opposed to energy overall) by 1990 is going to be hard to hit. Anthorative estimates foresee energy projects swallowing C$1,409bn by the end of this century, which should give bankers enough to dn.

Inelastic

The present profit squeeze has come about because the cost of refinancing has risen quickly while mortgages and consumer credit, which play an important part in the loan portfolios of the Canadian banks, bave proved relatively inelastic.

For technical and political reasons, interest on consumer credits is usually slow to react to changes in the general level of interest rates in Canada.

Since about a third of the banks' outstanding general loans are personal loans, the effect on spreads can be imagined.

That is even more true of mortgages, which amount to about eight per cent of the hanks' loan portfolios. It has been Canadian practice to renegotiate mortgages every five years. That means that most outstanding mortgages bring what by today's standards is too low a return.

The banks have found some compensation in their foreign business which, being largely wholesale, avoids the difficulties that have overtaken mortgage and consumer lending. At the end of 1979 foreign exchange assets accounted for 36 per cent of the chartered banks' aggregate assets of C$229bn (and that amount does not include the business done by branches and affiliate companies, mainly in the Caribbean and Europe).

On the other side of the ledger competition for deposits has been fierce. One trust company has been offering 13 per cent on a cheque book savings account, with free cheques, provided the balance does not fall below C$1,000.

On the banks' side, 3 per cent has been offered for a similar account, provided the balance does not fall below C$200. Even with interest calculated daily, these terms are far cheaper than those in the wholesale market.

Two banks have been especially hard hit by the interest cycle. Bank Canadian National bad almost 30 per cent of its assets in mortgage and consumer lending, which must have reinforced the argument for its merger, last year, with the other so-called Canadian "francophone" bank, the Provincial Bank of Canada. They now are in business as the National Bank of Canada.

The second bank to have suffered is IAC/Continental Bank of Canada, which is in the process of transforming itself from a finance company to a bank. As a finance company it took wholesale deposits, re-lending in the form of consumer credit—evidently an unprofitable mix under present circumstances. Once interest rates are over their cyclical peak both National Bank and Continental Bank should find relief from present pressures.

IAC's decision to turn itself into Continental Bank was taken in anticipation of a new regulatory act which has been dabated for several years and at least looks like coming into force this year.

Among other things it will simplify entry into hanking which, hitherto, bas required an Act of Parliament for every new bank hence the name "chartered bank."

Once in force, the new Bank Act will open the world of financial leasing and factoring to the banks. But they bave lost several battles, in particular the battle to be allowed to sell data processing services except where they can show that the service is "bank related."

Their foreign exchange liabilities will be subjected to a reserve requirement, yet it is calculated that the reserves which they will have to maintain free of interest with the Bank of Canada, if one assumes the present composition of hank liabilities, will be rednced by abont one-third of C$1.5bn.

Easily the most interesting aspect of the Bill before Parliament is that it will allow foreign banks to set up bank subsidiaries in Canada.

Under present law that is not possible, though it has not stopped the creation of foreign near-banks which engage in most forms of banking, generally on the wholesale side.

They did not have access to the Bank of Canada as lender of last resort and were not allowed to call themselves banks, but they bave run up assets of C$6.4bn.

The proposed reform, which Parliament is expected to approve with few changes, would impose a double curb on foreign-owned bank subsidiaries.

Between them, they would not be allowed to grow beyond 8 per cent of total domestic lending by the Canadian banking system. Moreover their authorised capital would require ministerial approval, and domestic assets would be held to 20 times authorised capital in each individual case.

Most of the 40-odd foreign owned near-banks in Canada are expected to apply for bank licences despite these restrictions. Certain incentives have been built into the legislation to encourage applications.

Diversification prompts added controls

SOUTH AFRICA

QUENTIN PEEL

The South African hanking scene is dominated hy five major groups which, despite a decade of rapid expansion and diversification within the banking system, have managed to retain and even reinforce their position. In turn, four of the five groups revolve aronnd major commercial banks, which remain by far the most substantial institutions in the industry, two of them under foreign control.

Nevertheless, the trend in South African banking in recent years bas been for most expansion to occur in the more specialised banking activities, with the result of a rapid proliferation in the numbers of smaller institutions. Moreover, despite the fact that some 20 major foreign banks have represnetative offices in Johannesburg, the foreign stake in the banking sector has been gradnally reduced.

The banking system is presided over by the South African Reserve Bank, which performs virtually all the functions normally associated with central banking except that of administering the national debt. Thus it acts on a day-to-day basis both as the bankers' bank and the banker to the Government, holding the required cash reserves of the commercial banks and acting as clearing house for interbank claims. It both advisca the Government on appropriate monetary policies and is responsible for the execution of such policies, such as the imposition of credit ceilings and liquid assets and casb reserve requirements. Finally it bas a role in actively ancouraging or discouraging the development of new financial markets, institutions or instruments.

One major function of the Reserve Bank is as the sales agent for all South Africa's gold bullion production. As a result it maintains an overwhelming dominance in the foreign exchange market, despite efforts over the past 18 months to create a freer and more genuine market in foreign currencies.

Assets of the big five banking groups in 1979 totalled R22.6bn ($28.25bn), compared with R20.1bn ($25.1bn) the previous year. The two largest groups, Barclays National and the Standard Bank Investment Corporation (Stanbic), remain under foreign control. Barclays group assets totalled R6.8bn ($8.5bn) and Standard's R6.2bn ($7.8bn) last year. The largest South African group, Nedbank controlled assets totalling some R37bn ($4.6bn), followed by Volkakag with R3bn ($3.75bn) and Bankorp with R2.9bn ($3.6bn). Bankorp is the only major group not centred on a commercial bank of the same name, in its case ahving Trust Bank, a so-called general bank concentrating more on corporate business than cheque-accounts, as its major element.

The move away from traditional commercial banking has included merchant hanks, discount houses, hire purchase and leasing specialists and the general banks. Thus the sbare of deposits held by the commercial banks has fallen from more than 58 per cent in 1950 to under 40 per cent today.

However, each major group based on the commercial banks now operates subsidiaries specialising in the different fields. Barclays has Wesbank (a general bank) and Barclays Merchant Bank, Standard has Stannic (hire purchase and leasing), Standard Merchant Bank and Standard Corporate Finance. Nedbank has UAL (mercbant bank) and three general banks in the group—Nedfin, Syfrets and Nefic. Tha Bankorp gronp inclndes Senbank (merchant) and Santambank (general), apart from Trust Bank, while Volkskas controls the country's fastest growing merchant bank, Volkskas Merchant.

The diversification of hanking bas meant the need for a growing number of controls—sometimes apparently uncoordinated—being imposed by the Reserve Bank. Currently the whoic field of monetary policy is under review by the commission of inquiry headed by Dr. Gerhard de Kock, the bank'a aenior deputy governor and special adviser to the Minister of Finance.

The first major innovation proposed by the de Kock commission, the creation of a foreign exchange market aod a managed float of the rand, has developed very gradually over the past year since the introduction. The Reserve Bank bas proved to be rather more conservative than expected in allowing the market to fix daily rand exchange rates and has ended up effectively dictating its movement. However, the major foreign exchange dealers have found their margins squeezed under the new system, compared with the previous regime which provided a guaranteed spread of 50 points hetween buying and selling rates.

The Central Bank still manages the exchange rate, but the banks are free to quote whatever spreads they like. After an initial period of savage rate-cutting the market has stabilised. Although dealers occasionally quote spreads of no more than two or three points, 10 points is the norm.

Outflow

The latest move by the Reserve Bank bas been to use the imposition of a forward discount on dollar transactions more actively, as the interest rate differential between persistently low rates in South Africa and high rates in the U.S. and Europe has precipitated a beavy capital outflow. Thus the discount was suddenly increased from 2.5 per cent to 12 per cent, and the amount of trade finance switching, estimated at some R2bn ($2.5bn) in tha first four months of the year, has appreciably declined.

One important area to be tackled by Dr. de Kock when be produces his final report, expected later this year, will be the rapid growth of the so-called "grey market." This bas come about because of the persistent differential in domestic interest rates between the money market and bank lending. Thus hank rate, currently at 7 per cent, has not reflected the fall in money market rates, where, for example, three-month NCDs bottomed at around 4 per cent last November. With the bank's prime overdraft rate tied by agreement at a minimum 2.5 per cent above bank rate, the gap has provided ample room for speculative banking.

The result has been that few big corporata borrowers use overdraft finance when they can arrange acceptance and other types of credit at around 6 per cent a year. Moreover, the smaller banks are making a habit of offering cheap overdrafts on the grey market, and then switching them (as well as the cheap call deposits which fund them) to large banks just before the end of each month. This is when banks' liabilities are assessed for the purpose of liquid asset requirements. The practice inflates the lending booka of the larger banks and forces them to reserve extra amounts of low-yielding liquid assets.

The recent rapid upturn in the Sonth African economy has exposed other areas of inflexibility or potential overbeating within the banking system. One of the faatest growing areas of the banks' business bas heen consumer credit and leasing finance. Barclaycard's turnover jumped by no less than 83 per cent last year, while the value of equipment bought through its leasing division rose by 40 per cent. Standard Bank is sufficiently worried by the sharp increaae in its credit card and hire purchase advances that it has increased its bad debt provisions to cover wbat it calls "these higber risk areas."

Some banks have also recorded a rapid—some would say disturbing — growth in their contingent liabilities, which inclnde performance guarantees and bill eodorsements. Volkakas' contingent liabilities totalled R776m last December, almost 50 per cent bigher than in June. Rand Merchant Bank, the country's smallest, reported contingent liabilities of R53m at the end risk lendings of only R1.4m.

The level of foreign ownership of South African banks is already subject to an agreement wbere the local sbareholding will be stepped up to 50 per cent by 1986 in terms of the Banks Act. Thus Barclays International disposed of 2m shares in its South African subsidiary during 1979, loweriog its holding to 60.03 per cent, against 63.8 per cent in 1978. Althougb Standard Chartered did not reduce its stake in Stanbic in 1979, its ahare at 59.54 per cent is already slightly lower. According to bankers, there are signs that Pretoria may relax the 1986 deadline—and indeed it is rumoured that at least ooe U.S. bank is keen to open a commercial banking office in Jobannesburg similar to that already operated by Citibank.

MAJOR SOUTH AFRICAN BANKING GROUPS
Rand m

	Assets 1979	Assets 1978	Net income 1979	Net income 1973
Barclays National Bank	6 808.4	5 691.9	62.6*	36.8
Standard Bank Investment Corp. Stanbic)	5 121.2	4 401.7	49.3	39.7
Nedbank Group	3 718.7	3 286.7	47.4	36.7
Volkskas	3 080.0	2 923.0	22.8	16.8
Bankorp	2 371.3	2 422.5	14.2	9.9

* 15 months.

Joint venture branches abound

EGYPT

ALAN MACKIE

IN THE SIX years since President Sadat launched his "open-door" policy there bave been dramatic changes in the way Egypt's economy is run. Nowbere has this been more evident than in banking, wbere there bas been little short of a revolution.

Six years ago a couple of offahore hanks, the Arab African International Bank and the Arab Interoational Bank, were operating in Cairo dealing with specialised international transactions. The Big Four nationalised hanks bad a virtual monopoly of banking business, and as most industry and commerce was nationalised, they were doing business in a public-sector cartel.

Today the Big Four—National Bank of Egypt, Bank Misr, Banque dn Caire, and Bank of Alexandria — still account for around 80 per cent of commercial banking activity, but aome 35 foreign banka, either establisbed in Cairo as representative officea, branches, or joint stock banks, have brougbt not only competition, but a growing sopbistication of services.

Branches of joint venture banks are sprouting in most of the more prosperous areas of Cairo.

Most now have branches in Alexandria, some in Port Said.

Misr America International, a joint venture between Bank of America, Development Industrial Bank and local institutional investors, is looking at the delta. Leaning on its DIB connection, it is probahly going to set up in Tanta wbere DIB already bas a brancb.

The proliferation of branches reflects the need of the joint veoture banks to find Egyptian pound deposits. Only joint venture banks with a controlling Egyptian interest may deal in Egyptian pound accounts.

This has always been a problem because these banks may not compete on interest rates, only services. At the same time an increasingly sophisticated lending public, which is usually transferring remittances from abroad, bas become wise to the attractions of holding on to their hard currency rather than converting it intn Egyptian pounds. The key lies principally in the interest rate differential—at one time aa much as 8 per cent—between what a depositor can obtain on Egyptian pound and dollar accounts.

The authorities bave moved on two fronts. First, they plugged a loophole whereby Egyptians could borrow in Egyptian pounds and deposit in dollar, enjoying the interest differential, by requiring local banks to charge tbe same interest on Egyptian pound loans as would be paid on dollar deposits.

At the same time the Government has adopted under IMF prodding a policy of raising interest rates gradually—they were raised across the board on April 1 by 1 par cent, bringing the central bank discount rate up to 9 per cent—to meet falling international rates later in the year. The policy appears to have heen vindicated by the suhsequent sharp fall in dollar interest rates.

Despite easing pressure on the Egyptian pound, the currency is still in very short aupply, lending some truth to the assertion that Egypt is becoming increasingly a dollar economy.

This deepening of the roots also reflects a growing participation in development projects—the reasoo the foreign banks were granted their licences. Set against the estimated $3bn foreign currency held by Cairo banks (a further $2bn is held abroad), the $150-200m actually committed by these banks to projects is still small, bnt it is growing. The banks are also beginning to play an important role in finding financial partners.

Only a few are able to do feasibility studies. The best known is the Misr Iran Development Bank which, since its establishment in 1975 has initiated projects worth some $270m ranging from a textile mill to agro-industrial projects.

Another up and coming investment group is the Joint Arab Investment Corporation (Jaicorp), a joint Egyptian United Arab Emirates organisation, which has not only taken part in syndication issues hut haa actively sought ont investment opportunities, and investment partners.

It recently formed a construction joint venture with the British Bernard Sunley group after sounding out three other European contracting groups to see if they would be interested.

Other financial institutions with the capability to carry out feasibility studies are the Arab Investment Bank, Arab African International Bank, the Suez Canal Bank, a local private bank recently established with Egyptian capital, and the Islamic Faisal Bank, Egypt's first private Islamic bank based on banking without interest.

The joint venture banks, under the lesd of MIDB are taking small equity stakes in the joint ventures they belp put together, hut U.S. banks are resisting this trend mainly for legal and corporate policy reasons.

The further development of medium term lending begs a number of questions, particularly a reform of the interest rate structure and a floating pound. Most people accept that a devaluation will come but for the time being the central bank does not feel it has the reserves to sustain a float.

An attempt to tap the Eurodollar market for $300m a year ago bas been the only real casualty of Egypt's rift with the Arab world over the peace treaty with Israel.

Arab private funds are still being deposited in Cairo. Four Arab banks, Arab African International and Arab Interoational of Cairo, Union de Banques Arabes et Francaises of Paris and the European Arab Bank of London were all set to lead manage, with four European and American banks, a split level 1-1.375 per cent above LIBOR 8 year loan for the central bank when the Arah banks withdrew.

A further attempt by Citibank to salvage a loan for Egypfair ont of the syndication also fell througb, largely because of the steep rise in Eurodollar rates in the interim.

The exercise was more to test Egypt's credit rating in international markets than a need for cash, and it is nnlikely with oil revenues of $700m for the first quarter of 1980 alone flooding central bank coffers, that it will be repeated for some time.

Arab International has raised a $25m general purpose loan in the Eurodollar markets. The National Bank of Egypt has meanwhile tried to float $30m floating note issue at a split ¾-⅞ above LIBOR bnt the issue has had to be suspended while tax complications are ironed out.

Some bankers also feel that medium term lending could well be impaired unless the central bank sets up some system wbereby it acts as a lender of last resort, or a money market where billa could ba discounted. The banks help each other informally when they need overnight funds, but there is little local understanding that safe hanks do not borrow short and lend long.

A capital markets authority is being set up to look into this and other problems, notably the mobilisation of domestic savings and the establishment of a functioning stock market. Ciro has a atock exchange wblch exists in a atate of suspended animation because of swingeing tax liabilities.

The capital market autbority will also be looking at ways of developing local and international syndication funding. Although local syndications are now quite common the manner of syndtcation and project analysis is often primitive.

Despite the gradual deepening of banking institutions, most foreign banks and their a;liates are going to continue to tap the lucrative short term supplier credit business. The danger here is tbat some of the less experienced new hanks will cut their margins too fine and run into difficulties sbould there be a shakeout.

However, tbere are few signs that conventional bankers are losing much sleep at the thought.

Region of marked contrasts

THE CARIBBEAN

HUGH O'SHAUGHNESSY

THE CARRIBEAN is a region of contrasts for the hanker. Few other places in the world could offer the variety of circumstances in which bankers work.

At one extreme lies Cuba, where President Castro's own brand of Marxist Leninism, the island's lack of financial resourcea and its critical dependence on the Soviet Union mean that banking is tightly and jealously controlled by the State. The chairman of the National Bank of Cuba has a seat in the Cabinet and his word is as important as tbat of most other Ministers.

Besides carrying out domestic hanking in the island itself the bank has representative offices and branches abroad. In London it has set up its own subsidiary, The Havana International Bank, which finaoces international trade aod participates in consortium loans like dozens of other foreign banks in the City, despite tbe fact that Cuba must be careful oot to place assets in the U.S. for fear of confiscation.

At the other end of the spectrum are the tiniest islands of the region where poor and struggling governments offer financiers every freednm in the hope that they will come and set up sbop. In the small islands in recent years there has been an increasing number of operations of very doubtful legitimacy and honesty. Things have got so bad that it is now the constant nightmare of the larger countries which have interests in the Caribbean thal one day some smaller territory will be taken over financially for good hy some ahady operator installed behind the shaky sovereignty of some nominally independent member of the U.N.

In between the extremes total State control and total lack of regulation comes an infinite gradation of banking situations.

Bigger countries such as Jamaica and oil-rich Trinidad and Tobago have for decades heen insisting that the major foreign banks such as Barclays, and the big Canadian institutions which are very powerful all over the Carihbean should incorporate their operations locally and invite participation by local sbareholders. Initially resisted by the banks, local incorporation is now accepted and taken for granted in the bigger territories.

In the smaller islands which bave few of the resources of a Jamaica or a Trinidad and Tobago local governments bave heen in the business of offshore banking and the provision of tax bavens for several decades and have now brought it to a fine art. The advantages brought in by this sort of privilege banking aod the success made by the older exponents of it have this year tempted several more Caribbean governments to offer new inducements to foreign bankers and offshore funds.

The Bahamas, at a time when they were still a British colony and before tbey became independent, was the first territory to start the pattern. Taking advantage of the status of a Crown Colony and the proximity to tbe U.S., the Bahamas quickly attracted financiers and companies from all round the world.

Typical of the spirit of the 1950s in the Bahamas was the agreement hetween the government of the day and the Grand Bahama Port Authority which gave almost extra-territorial rigbts to a U.S. financial group on the island of Grand Bahama. Freeport was set up and by the mid-1950s its population had tripled to 35,000 people in the course of 4 years. Political pressure in the event caused government controls to be applied in 1969 and Freeport has since become something of a monument to those who wanted to go too far and too fast.

The Cayman fslands, still a British colony, was a later entrant to the offshore banking business but in more orderly and uneventful ways. A set of banking regulations for the territory was fought out in collaboration with the Bank of England.

With less than 20,000 inhabitants, the Caymans, 200 miles from Jamaica and 500 miles from Miami, cannot offer the facilities of the higger islands but the colony picked up a great deal of business in the 1970s wben the Bahamian Government became more restrictive and started limiting the entry of expert foreign hanking personnel. Many international banks use the Caymans as conveoienca slots through which to book business effectively done in Europe and North America.

The Dutch Antilles and Curacao in particular are also long-established tax havena and offshore hanking centres under a European flag. With eight fully operational banks, from the Algemene Bank Nedderland to the Bank of America. Curacao has all but forgotten the frigbt it gave foreign hankers in the strikes and riots of May 1969.

Barbados is now bidding to join the ranks of offshore hankers. Long aloof from the financial manoeuvrings of more adventurous islands Barbados, under Prime Minister Tom Adams, is now trying to encourage the new hanking industry. Given its political stability, sophistication and pleasant pace of life it will certainly be a strong candidate for new business.

Nevertheless fears remain that the smaller islands with governments less respectable than that of Mr. Adams will eventually succumb to the blandishments of unscrupulous financiers and return the Carihbean to an era of financial duhiousness which many bankers had hoped had become only a memory.

Subjected to further nationalisation

INDIA

K:K. SHARMA

Plodding along the course set for it since 1969 when Mrs. Indira Gandhi, as Prime Minister, first nationalised the top 14 commercial banks, the banking industry was shaken again last month when she administered her second dose, nationalising another six commercial banks, each with deposits fo more than R2bn. As a result nearly 90 per cent of the banking industry is now in the public sector.

Mrs. Gandhi's ostensible reason for the second instalment of nationalisation was that it would help the "weaker sections" of the populations. This was the stated purpose in 1969 also, but since then the performance of the nationalised banks has, on the admission of the government itself, been mixed. Hence the conclusion that, like the takeover in 1969, last month's move was also politically motivated. Elections to the State assemblies are due at the end of this month, and in the absence of any economic policy-making since she became Prime Minister again last January, Mrs. Gandhi needed something to improve her sagging "Socialist" image.

Finance Ministry officials admit privately that nationalisation by itself is no panacea for the country's economic problems, especially in the light of the performance of the 14 nationalised banks since 1969.

Yet progress has undoubtedly been made towards the object of taking banking to people not provided with bank services, although this has eroded the profitability of the banks themselves. The main reason is that recovery of loans from the so-called "priority sector" — which includes small farmers, traders, the self-employed and the small entrepreneurs—has been difficult.

At a conference of chairmen of the nationalised banks on March 6 last—when it was decided that the share of bank loans to the "priority sector" should be raised from 33 per cent to 40 per cent—it was admitted that the recovery position was "very bad." The problem is compounded by difficulties in identification of borrowers, the increasing proportion of defaults, high cost of administration and the general dilution of business norms.

The decision that the nationalised banks should focus their attention on the priority sectors has created something of a problem since the main source of revenue—loans to the organised corporate sector—is strictly limited by both the Government and the Reserve Bank, which continue to enforce a tight money policy leading to pressure on liquidity and working capital availability for the private sector.

Profitability has been falling since 1975. In terms of profits to net working capital it declined from 0.23 per cent in 1975 to 0.21 per cent in 1976, 0.18 per cent in 1977, and 0.15 per cent in 1978.

Of the total available for lending — apart from the amounts tied up statutorily in Government bonds and the like—one-third (now to become 40 per cent) is earmarked for loans at low rates of interest to farmers in the priority sector. Another 1 per cent goes for loans under the "differential" rate of interest scheme, which really means a marginal and losing rate. Substantial parts of the rest go to finance food procurement and trading. This is a major reason why companies have been forced to accept deposits directly from the public.

It is acknowledged, however, that although the administration of the loans to the priority sectors could be substantially improved, the primary objective of taking banking to the "neglected" sections is being increasingly achieved, albeit at a high cost. Recent studies show that several schemes prepared by banks have made some impact on the district and even the village economy.

Nevertheless, progress is slow and it is for this reason that the Government has decided to start regional rural banks to cater to the specific needs of the farmers. These banks have still to make a mark and the problem of making credit available to agriculturists remains by and large unresolved.

This is despite the fact that bank branches have proliferated (another reason why it is difficult to understand in economic terms the need to nationalise more banks). According to a recent study the number of rural branches rose from 1,832 to 13,644 from June 1969 to September 1979. The total number of branches rose from 8,262 to 30,604, so banking continues to be largely urban-oriented. This has been some shift in the pattern in recent years, however. During 1977 and 1978, of the total number of 5,683 branches opened, 68 per cent were in the rural areas. During 1979 the trend continued and of the total of 1,103 branches opened in the first nine months of the year 76.5 per cent were at rural centres.

Banks will open more branches by 1981, primarily in the rural and semi-urban centres in districts where a single branch covers less than 20,000 people. Of the additional 6,501 branches needed in the districts by 1981, licences of allotments for 3,702 have already been issued by the Reserve Bank, which is occupying an increasingly important role not only in laying down credit policy and monitoring its implementation but in carrying out the proclaimed socio-economic goals of the Government.

Now that Mrs. Gandhi has brought nearly the entire banking system under public control (the foreign banks, which make up the bulk of the remaining private sector, are not to be touched although they too have to conform to the controls imposed by the Reserve Bank), some thought is being given to restructuring of the industry.

The main proposal being debated is the dovetailing of the nationalised banks with the regional rural banks and credit co-operative societies, bringing about in the process a certain degree of specialisation in geographical and regional terms. So far, this has been sought through the "lead bank" scheme under which a particular bank tries to study the special needs of particular areas and formulate plans to meet them.

To be discouraged is the unhealthy competition that has crept in among the nationalised banks, each of which works independently for achieving targets for deposit mobilisation and credit disbursement so as to show that it is working for the Government. There is considerable window-dressing as a result and there is a growing feeling that target-orientated banking should be discouraged. The need to offset the losses as a result of lending to the priority sector has also led to inter-bank competition for the accounts of the giant public sector undertakings. This has hampered the progress of the lead bank scheme and is among the many reasons for the early introduction of reforms and restructuring of the banking industry.

Closer involvement in overseas scene

NEW ZEALAND

DAI HAYWARD

NEW ZEALAND'S five trading banks are operating in a period of increasing inflation—possibly reaching a rate of 20 per cent this year—a slow-down in economic activity, falling retail sales in real terms, further deterioration in the balance of payments, higher unemployment and a reduction in personal savings and the level of individual financial assets.

At the same time they are in a more competitive situation in seeking deposits and are better equipped to compete with non-banking finance institutions and finance houses. The gloomy economic situation does have the prospect of brightening by the middle of this decade as New Zealand starts to reap the benefits of developing its extensive natural energy resources.

The banks are keen to be deeply involved in organising the massive injections of foreign capital which will be required to develop the proposed energy projects. They had no trouble recently in negotiating a NZ$500m overseas investment package to expand New Zealand's refinery.

It is estimated that overseas investment of between NZ$25bn and NZ$28bn, will be required for energy projects based on New Zealand's extensive natural gas and lignite coal deposits along with the utilisation of wood waste and timber to produce liquid fuel. The banks are stressing their know how and access to foreign capital markets.

Largest

The largest of the trading banks in terms of branches, deposits and loan business is the Bank of New Zealand, which has over 40 per cent of both borrowing and lending business. Then comes the ANZ with 21 per cent of total business, the National Bank with 15 per cent, the Bank of New South Wales with 11 per cent and the Commercial Bank of Australia with 7 per cent.

Their relative shares of the banking market have remained relatively stable over the past five years except that the Bank of New Zealand has increased its business by about 4 per cent—probably by picking up most new business, although the proportion held by both the Bank of New South Wales and the Commercial Bank of Australia has dropped by 1 per cent.

The trading banks together have 695 branches in cities, towns and country districts throughout the country. In addition they have another 342 sub-branches or agencies. The agencies provide basic banking services for limited periods and may operate for only two or three hours a day on two or three days a week. They are usually in small country districts, in secondary colleges, or in similar areas. The number of branches has remained constant for a number of years.

Perhaps because of the ease of access to a bank branch New Zealanders make relatively high use of them. Despite the country's relatively small population of under 3m the trading banks operate 1.35m accounts and another 1.45m savings accounts. The Post Office Savings Bank holds many thousand more deposit accounts.

Many New Zealanders operate more than one bank account. New Zealand banks do not pay interest on funds held in cheque accounts so most depositors, especially the small ones, also hold interest-bearing savings accounts into which regular payments are made. Almost 20 per cent of trading bank accounts this year carry overdrafts as New Zealanders make use of their bank account as a source of loan finance.

Although current cheque accounts do not earn interest large sums are kept on deposit in these. Last month interest-bearing deposits held by the trading banks together totalled NZ$3.436bn. Almost half as much (NZ$1.6bn) were held on non-interest-bearing deposit accounts.

New Zealand bankers still regard the lifting of restrictions on their operations and the easing of controls in 1976 as being the most important development in the past decade and earlier. For more than 40 years New Zealand had a long and in many ways unhappy experience of direct control of the banking system. This resulted in a rapid expansion of non-banking suppliers to the money market, which in turn meant a much higher cost of finance with all its associated problems.

One of the problems which has put the banks in an invidious position for many years has been the tight control over interest rates. Even today New Zealand's bank interest rates fall short of the official inflation rate—but they are much better than they were a few years ago.

From 1968 to 1974 interest rates on savings bank deposits increased by only one half of 1 per cent—from 4.5 per cent to 5.5 per cent. In 1975 they went up to 6.5 per cent but the inflation rate was such that the real net pre-tax loss on savings that year was 8.2 per cent. This was because the inflation rate had jumped from 4.3 per cent in 1968 to 11.1 per cent in 1974 and 14.7 per cent in 1975.

The banks could not [illegible] interest rates on deposits [illegible] the Government, which was attempting to maintain a low interest rate policy, would not raise the official rate or allow the banks to do so.

This resulted in a rapid growth of alternative financial institutions. Small investors particularly were attracted to these finance houses, where they could get a much better return but where the risk was also much higher. The result was almost inevitable, with some serious financial crashes affecting thousands of small depositors.

With the new competitive climate and the freeing of interest rates banks have been able to compete for a much bigger share of deposit money and have been able to increase their interest rates. These, however, are still well behind the current inflation level of 18.5 per cent. Average interest rates are around the 12 per cent mark for amounts up to $NZ12,000. For really big depositors, with $NZ1m or so to invest, the rate will go up to 5 or 15.5 per cent.

However, because of the way they were able to expand finance houses and non-banking institutions still have a large grip on the financial structure.

New Zealand's trading banks at present account for less than 25 per cent of the loans and investments arranged by financial institutions. The banks have, however, started winning back deposits from the large institutions. The trading banks' share of total institutional deposits declined steadily from 40 per cent in 1950 to a low of 27 per cent in 1969. Since then it has improved and now stands at 42 per cent. The Trustee Savings Banks have also improved their share of the market but much of this has been the result of small depositors switching from the Post Office Savings Bank.

Although they are all independent New Zealand's trading banks have joined forces to produce a computerised system which is unique. Jointly they have established "Date Bank" which does all the processing for each individual bank.

Beginning with one main centre Date Bank has now nine processing centres strategically placed around the country. Fast courier cars rush the bank paper and records of each day's transactions to the nearest centre where they are processed overnight. Each bank has its own terminal but Date Bank cuts down paper work and saves a considerable amount of time in processing transactions. New Zealand was able to institute this system because of the limited number of trading banks operating in the country and because all five of them operate nationally with branches spread throughout the country.

Over the past decade the pattern of banking and the involvement of trading banks has changed considerably. New Zealand has always been an internal trader of considerable size on a per capita basis. For example, an International Monetary Fund report listed New Zealand fourth for its level of exports and imports among the world's leading trading nations on a per capita basis. It is in fact ahead of Australia, Japan and the U.S.

However, in the past 25 years the country's trading patterns have changed dramatically and the banks have had to change to keep pace with this. The former isolation of New Zealand banks has gone forever and even if they wanted they could no longer maintain their isolation from banking developments in the rest of the world.

It is now possible for a New Zealand company or bank to obtain cover for nearly every kind of transaction in foreign currencies and New Zealand companies can cover themselves against potential loss on borrowing in foreign currencies.

Without this the declining strength of the New Zealand dollar over the past year could have resulted in substantial losses to New Zealand exporters. Banks can now advise on the cheapest source and method of utilising foreign funds.

Unnoticed

In less than a year the New Zealand dollar has been devalued by 9 per cent, though almost half of this devaluation has gone unnoticed outside financial circles. In June 1979 there was an official devaluation of 5 per cent, and a new method of fixing exchange rates was introduced. The value of the New Zealand dollar is now adjusted monthly to reflect the comparative rate of inflation between New Zealand and its major trading partners. In the 10 months after the official 5 per cent devaluation of the New Zealand dollar has declined by just under half of 1 per cent each month.

The biggest restriction probably now placed on trading banks is the reserve asset ratio. By Government decree the banks are compelled to keep a certain ratio of their assets in Government stock. In April this year the ratio was 30 per cent of the amount held on demand deposits and 22.5 per cent of the amount held on time deposits.

WORLD BANKING XXXVIII

The Regulatory Framework

Supervisors in close consultation

REGULATING BANKS bas become an international business these days. If the man from the Bank of England is not in aBsle meeting fellow bank supervisors from the Group of Ten countries (plus Switzerland and Luxembourg), then be could well be found in Brussels at a meeting of either the EEC Advisory Committee or the EEC Contact Committee. All this international activity arises because bank supervisors have in a sense followed their banks abroad. *This is one important way* in which regulation has adapted to modern changes in banking that have made banks more diverse and complex institutions.

Another result of this growing diversity and complexity has been widespread reform of banking legislation. New banking laws have been enacted in Belgium, the Netherlands and the UK and major revisions are under way in Canada and Japan, substantial amendments to existing laws have been effected or are being proposed in West Germany, France and Switzerland.

The need for more *sophisticated* supervision has arisen, paradoxically, because in some respects banks in the major countries now enjoy more freedom than they did, say, 25 years ago. Although restrictions of one sort or another still exist everywhere, there now tend to be fewer direct credit controls, interest rate ceilings and cartels, branching restrictions, exchange controls and restrictions on overseas expansion. As long as banks were subject to sucb controls, the opportunities for putting their depositors' money at risk were that much less. As restrictions have been relaxed, the need for prudential supervision bas increased accordingly.

Soundness

A feature common to bank regulation in all major countries is a system of balance sheet ratios designed to control or monitor the soundness of individual banks or the banking system as a whole. The use of such ratios bas become both more widespread and more sophisticated. These prudential ratios are frequently applied in parallel with monetary and credit controls, though the aims of the two are normally distinct.

The authorities in all major countries insist that an aspiring banker must put up a certain minimum amount of capital before he can start business. Invariably, the sum required is higher than needed to start up a company engaged in any other business. The amount varies widely from country to country, but the trend has been upwards. It can be as low as £25,000 for a one-branch bank in the U.S. (though the Federal authorities would probably want more) to over £8m for a *banque d'affaires* in France.

On top of the minimum capital needed to start up from scratch, banks generally face limits on the size of their balance sheet equal to some multiple of their capital. For most banks this means having to hold more capital and reserves than the initial minimum. In some countries, including Denmark, Italy and Luxembourg, the controls are on a bank's deposits, thereby limiting the extent to which a bank's assets are financed by depositors' money as against its own funds.

In recent years more emphasis has been placed on the need for capital to absorb losses and so commonly now a bank's assets are limited to some multiple of capital. This approacb bas the advantage that different types of asset can be given different weightings in the calculation according to their risk. The result can be extremely complex calculations such as those that banks have to make in Belgium and the Netherlands and to a lesser extent in West Germany, Switzerland, Sweden and in future in the UK.

Reflecting the simple truth that one way to reduce risk is to diversify, many countries limit the amount a bank can lend to one customer. This is normally expressed as a proportion of a bank's capital and varies from 10 per cent in the U.S. to 100 per cent in Italy. In Japan the limits on large loans which were introduced in 1974 are forcing major trading companies such as Mitsubishi and Mitsui to curtail their borrowings from "house" banks. A particular problem arises in the case of international bank lending, much of which is to publicly owned institutions. In the U.S. this bas led to the introduction of complex rules to determine wbether lending to different public sector borrowers in a foreign country should be considered as a single sovereign risk.

Typically, there are also restrictions on the amount of a bank's funds that can be tied up in fixed assets — land, buildings, equipment, investments in subsidiaries — that are generally reckoned to he relatively risky or illiquid. Banks in several Continental countries are forbidden to invest depositors' money in such assets. In the UK and Japan banks are also expected to maintain some "free" capital over and above the amount invested in fixed assets. As well as having a prudential purpose, such controls often also serve to prevent banks huying np large stakes in other industries.

When it comes to liquidity controls on banks, the approacb of supervisory authorities (and banks themselves) has as a general rule become more sopbisticated. There is widespread recognition that the traditional view of bank liquidity — casb and very liquid assets — takes no account of the growing foreign currency business of banks and the development of money markets as a source of liquidity. The modern trend is to accept that a wider range of assets can meet banks' liquidity needs. Bank supervisors commonly now look at both sides of the balance sheet, to monitor or control the amount of maturity mismatching — borrowing short and lending long — that banks do. Often the next step is to assess liquidity needs according to the extent of the maturity mismatch.

Some countries do still stick to the conventional narrow view of liquidity and insist that banks bold a minimum amount of cash. Swiss banks, for example, have to maintain fairly large amounts of casb and balances with the central bank and postal giro in relation to their current liabilities. Paradoxically, the banks actually exceed the minimum legal requirement by a very large margin, though this may reflect the lack of short-term money market instruments in Switzerland — a shortcoming the Swiss authorities are trying to remedy.

The losses experienced by a number of banks in the 1970s as a result of their foreign exchange dealings has led to a new emphasis on controlling and monitoring foreign exchange risk. In those countries with exchange controls banks are constrained to an extent by limits on the amount by which they can take net positions against their own currency. This on its own would not prevent, say, a French bank taking a large uncovered short position in dollars against sterling. For soma time the German authorities have set a limit, equal to 30 per cent of capital and reserves, on the sum of a bank'a positions in each individual currency. The Bank of England now proposes to adopt the same approach, with the addition of a further ceiling on the position in any one currency.

Ratio controls are enforced with varying degrees of strictness in different countries. The important distinction is between those countries, particularly on the Continent, where the detailed requirements are laid down by law and those, such as the UK and Canada, where the supervisors are given discretion in applying (or waiving) them. Even where the approach is more legalistic, the authorities are generally well aware of the dangers of premature or heavy-handed action against a hank.

Consistent

There are countries where the authorities are obliged to consult the banks before imposing or altering ratio controls and in Luxembourg there are even provisions allowing the banks to vote on sucb measures.

Frequently official ratio controls do no more than codify wbt the banks are doing anyway. The trend historically, however, has been towards banks operating with less capital, reflecting such factors as the effects of inflation and changing perception of risk. Supervisors seemed on the whole to be content to live with this, at least np until the mid-1970s. They bave also generally been flexible in allowing other forms of finance such as loan stocks to count as part of a bank's capital base.

Nevertheless, since 1974-75 the controls bave begun to bite rather more. This is currently the case, for example, in France where the big nationalised banks are going to have to raise more capital to meet new requirements introdnced last year. Much the same haa been true in Switzerland over recent years and, indeed, in several other countries (including the UK and the U.S.) fresb capital bas had to be raised to prevent balance sbeet ratios from falling even further. This bas happened even when no formal controls hava been breached.

Ratio controls, no matter bow sophisticated, are only one of the tools used by regulators. The fact that its capital is above some minimum set by the authorities is no guarantee against aa bank failing. By the time large losses appear in a bank's balance sheet it may already be too late. Thus ratios are now *commonly* assessed along with otber more qualitative factors as a means of obtaining an early warning of trouble. It is bere that a bank's earnings assume importance because in a sense they provide the first line of dafence against losses.

These early warning techniques are most developed in the U.S., where the various Federal regulatory agencies now use a common rating system for all banks. This system incorporates not only measures of capital and liquidity, but also earnings, the quality of loan book and the quality of the management. On the basis of their rating, banks are put into one of five categories ranging from sound in almost all respects to heing in need of constant attention. If, after all this supervisory attention, a banks' position is irredeemable, then in many countries, including the U.S., Canada, Germany, France and the U.K., the nnlucky depositors are likely to receive some compensation through a deposit insurance scheme.

The diversity of practice in different countries causes problems when it comes to the supervision of international banking. International co-operation has over the last few years gone a long way towards ensuring that no international offshoot of a bank, at least in a major country, escapes the supervisory net. The trend now is for more home country control, so that the supervisory authority of the parent bank assumes more responsibility for its activities worldwide. This involves putting controls on the consolidated balance sheet of international banking groups. This policy, already used by the Dutch, is now being adopted by the Swiss and will soon also be pnt into practice hy the Bank of England.

Controls on consolidated positions are easier to apply in countries such as the UK where regulation is less legalistic but are more difficult to implement in countries like Germany and Switzerland where basic revisions in the banking law would be required to bring offshore subsidiaries under the control of the domestic authorities. Nevertheless, the Swiss authorities are pressing ahead with the required legal changes. The U.S. and Canadian authorities have of course been monitoring the activities of their bank's overseas offshoots for some years.

At the international level the central bank governors of the world'a leading industrialised countries have reaffirmed in their Basle communique last month the cardinal importance that should be attached to the maintenance of sound banking standards. High priority is to be placed on the work of the Committee on Banking Regulations and Supervisory Practices (the so-called Cooke Committee) with its emphasis on internationally consolidated balance sheets, improved assessment of country risk exposure and better monitoring of bank's maturity mismatching.

One problem is that in the absence of some uniformity of supervisory controls, consolidation could lead to unnecessary duplication of controls on foreign branches and subsidiaries. There have been attempts to harmonise ratio controla in the EEC, but so far with limited snccess. The 1977 Banking Directive provided for what in Community terminology are called "observation" ratios. The word "observation" here has the meaning of watching, and not its other meaning of complying. Nevertheless, the aim is that these ratios will serve as the basis for eventual harmonisation throughout the Community. That day still seems to be some way off, not surprisingly given that the diversity of supervisory controls reflects some fundamental national differences in financial structure and accounting practice and terminology. The harmonisation of the terminology alone is a major task in its own right.

It is *notable* that the Basle communique recognises the problems posed by differences in national supervisory rules, but does not mention any attempts to make them more consistent. Yet failure of the current approach to contain the dangers of over expansion of international bank lending is likely to give new impetus to calls for reserve requirements or direct restrictions on banks' Euromarket activities. In this respect the Standing Committee on the Euromarkets will now report to central bank governors, at least twice a year, on the state of international bank lending from the viewpoint of both the soundness of the system and the effects of domestic monetary policies. At the same time, bank supervisors are fully aware that too strict controls on bank's international business might damage their crucial role in recycling the large OPEC surpluses.

Despite all these difficulties, the progress made by bank supervisors in recent years should not be underestimated. At least it is now widely accepted that multinational banking requires multinational supervision. The ramifications worldwide of the failure of a major bank would be too serious to be tackled as a matter of purely national concern.

INTERNATIONAL LINKS

PETER CONOBOY AND DIMITRI VITTAS

مكتبة الأصيل

Need to preserve a balance

EUROMARKETS CONTROL

PETER MONTAGNON

WHEN THE Bank for International Settlements (BIS) published its otherwise fairly bland communique on the Euromarket in April, it drew attention to the increasing dangers inherent in international banking. Even if the bank's governors do not yet appear to bave reacbed fundamental agreemant on the question of controlling the market they are thus in little donbt about the risks in a market whose size now exceeds $1,000bn.

It is from the awarness of these risks that the arguments in favour of controlling the Euromarket have evolved. The market is relatively unregulated and in the minds of central banks and national banking authorities not enough is known abont how it functions.

A particular worry is wbether the market is safe for the banks operating in it. Risks can arise in a number of ways. One is through mismatching of assets and liabilities. Sudden sbarp increases in short-term interest rates can result in serious difficulties for banks by driving up the cost of funds used to back longer term loans whose rates are locked in at lower levels for a period of time.

Another point of concern is "country risk." With the very wide payments imbalances that bave emerged as oil prices rose over the past decade, some countries bave bnilt np a very large amount of external debt.

In a number of cases there is e real danger of their being nnable to meet the service in charge on this debt. In others the danger lies in political instability in the borrowing country. The problem for banks is in avoiding excessive concentration of their assets in sucb countries, so that if default does occur it will not cause loan losses on a scale that would undermine their viability.

The "country risk" qnestion is, bowever, also connected to the liabilities side of the balance sbeet. Events surronnding the freeze of Iranian assets in U.S. banks show how careful banks have to be to avoid relying too beavily on large individual sonrces of funds.

A third point of concern relates to the question of capital adequacy. The bank regulators want to feel sure that banks have enougb capital backing to support lending activity that has been growing apace in recent years. Witbont adequate capital resources banks could meet severe difficulties if they bad to cope with large loan losses or in the event of a squeeze on their liquidity.

These concerns were all recognised one way and another in the BIS communiqué. The governors said they bad decided to monitor activity in the Euromarket yet more closely than before. A BIS standing committee on the Euromarket has been set up to report twice a year on the state of the market to the governors, or more frequently if circumstances warrant. This closer surveillance is a crucial step towards ensuring sound banking practices. It conld, in the words of the bank "provide a framework for intensifying, if eppropriate, co-operation on monetary policies between the countries concerned."

At the same time hte governors drew attention to the responsibility of domestic authorities for ensuring the soundness of tha banking system, particularly with regard to capital adequacy, liquidity and the concentration of risks. To this end they urged e quick implementation of recommendations already made by the BIS Committee on Banking Regulations and Supervisory Practices, the so-caled Cooke Committee. These recommendations call for supervision of banks' international business on a consolidated basis, improved assessment of country risk exposure, and the development of more comprehensive and consistent data for ensuring that banks do not get caught short funding too mnch long-term lending with short-term deposits.

Broadly speaking, then, the BIS statement make a two-pronged attack on the problem. On the one hand it calls for improved information compiled througb international bodies such as itself; on the other, it urges a more activist attitude on the part of domestic banking authorities. What it avoids is any proposal for soma sort of global controls sucb as reserva requirements on Euromarket business designed to curb the growth in the overall size of the market.

The reserve requirement idea was first put to the central banking community a year ago by Mr. G. William Miller, the then chairman of bte Federal Reserve Board. It is still supported by the U.S. whose concern about the Euromarket goes beyond the aim of charting a safe course for international banks to the controversial issue of wbether the very existence of the market undermines netional ettempts to control inflation by restricting money supply growth.

Leeway

Proponents of this argument suggest that a shift of deposits from a domestic banking system to the corresponding Euromarket — for example, from the U.S. to the Eurodollar market — usually results in a net increase in worldwide bank liabilities. This happens because the reserves held against domestic bank liabilties are not rednced by the transaction and there are no reserve requirements on Eurodolalrs. Thus the transfer creates a leeway for domestic liabilities to be expanded without any additional reserve requirements.

Part of the controversy surrounding this argument rests with the belief by opponents of it that Eurodeposits are not transaction balances but investments. For the money to be spent it must be returned to the domestic banking system. It is control of the money supply within this system that is thus crucial to the fight against inflation. Bnt the question remains as to wbether market practice now means that Eurodeposits should in fact be treated as transaction balances.

The question also arises as to whether the transfer of funds from domestic markets to the Euromarket increases the velocity of circulation of the national money supply. It is quite likely that this is the case, and the result is that inflationary pressures can increase beyond the point suggested by money growth in volume terms.

Problems such as these were behind U.S. prssure for global controls on the Euromarkets, but the suggestion met with little enthusiam in Europe. Britain and Switzerland particularly saw global controls as undesirable, first because they would tend to undermine the importance of their countries as international banking centres and second because global controls could not reach round every corner of the globe. The Euromrket could simply be relocated somewbere wbere suipervision was even barder than before. Meanwhile the need for banks to recycle large OPEC paymnets surplus caused many to back away from the notion of ? ? ? ? with the market.

The BIS communique dealt with the whole issue only in its final paragraph, which stated that divergences between national banking systems and the Euromarket did tend to foster the growth of the latter. It said it was desirable for these divergences to be reduced, although it would still be necessary to take into account the structure and traditions of national banking systems.

This last sentence points to the basic philosophy that is now emerging from the debate on Euromarket controls.

Snpervision of banks is to be increased — and here there is now a well-established principle that authorities in one country do have ultimate responsibility for tha foreign subsidiaries and branches of that country's banks. Banks will heve to produce consolidated balance abeets to which capital ratio requirements will be applied. They will be expected to adhere to stricter rules on the maintenance of liquidity the concentration of their risks will be monitored more closely.

Over and above this, there will be closer international coordination, but the responsibilities will lie mainly with national authorities—which means that individual measures taken may not necessarily be harmonised internationally and may reflect particular pre-occupations of different countries.

The end-result should be that the Euromarket becomes a safer medium through which to channel business. But the regulators are walking a tightrope. If tbey are not strict enougb, the danger remains that confidence could be undermined by some spectecular banking collapses; if they are too strict, the banks will not be able to re-cycle the very large surpluses now being built up by OPEC countries. At el lcosts the balance must be maintained.

Reluctance to reveal all

FINANCIAL INFORMATION

BARRY RILEY

MAJOR BANKS heve many thousands end often millions of depositors, and it might be thought that such large constituencies of potential users of accounts would bave forced relatively high standards of disclosure and accounting in the financial reports of banks.

Curiously, bowever, precisely the opposite has been trua. Bankers bave been able to argue—successfully in most countries—that they are so vulnerable to shifts in public confidence that it would sometimes be too dangerous to tell the truth. In good times banks tuck away secret reserves, in bad times they raid their undisclosed hoards and pretend in their published figures that everything is fine. Althougb Credit Suisse, for example, lost SwFr 1.2bn in the Chiasso fraud in 1977, reported income actually rose.

The justification for this is that in most countries there is an effective central bank monitoring system that acts in the public interest in ensuring the soundness of individual banks. There is therefore no need for public disclosure, and so in various ways banks ere put into a privileged position.

Even in the UK, a great many banks take advantage of exemptions in the Companies Acts, and they do not pretend that their accounts give a true and fair view of the kind that is required for the great majority of companies. The attempt by the U.S. Federal Reserve Board to improve and standardise levels of disclosure for foreign banks operating in the U.S. has raised sqneals of protest from all over the world.

However, the rapid internationalisation of banking is bound to put increasing pressure on the cosy arrangements that banks enjoy in most of their bome conntries. Foreigners are less willing to take it for granted that some far distant central bank is looking after their interests; nor are they likely to comprehend the finer points of local convention.

Prominently

Publisbed figures, especially balance sheet ratios, are counting for more and more. It is noticeeble that the large British merchant banks are finding it desirable to take capital out of their inner reserves and place it more prominently in the balance sheet sbop window. This has recently been done, for instance, by two of them—Kleinwort Benson and Baring Brothers.

Banks will give up their privileges only with the greatest of reluctance, bowever. Tha scale of the resistance emerges clearly from the submissions received by the Federal Reserve in response to its proposals to require foreign banks to meke extensive disclosures on an annual report form (Form FR Y-7).

As a sample, Credit Suisse pointed out: "A Swiss bank may be unable to obtain financial information, or information as to kinds of business activities conducted, even from a subsidiary that it is considered to control."

Secrecy can scarcely be taken much further than that. But other countries bave serious misgivings too. The British Bankers' Association bas told the Fed that British banks wisb to avoid the possibility that various countries will start requesting individual information from foreign banks. "The consequent dissemination of highly sensitive and confidential information and the practical difficulties which would be imposed on international banking groups would ba a most unwelcome and burdensome development."

Clearly the appropriate way out of this problem would be the development of commonly agreed standards of disclosure and accounting policy and auditing for internationally trading banks. If sucb standards of reporting were to become widely accepted it would be difficult for banks which refused to follow the rules to operate internationally, whatever the privileges that they were granted under their own national laws.

The first tentative steps towards the development of such agreed standards have been taken by the Internatioonal Accounting Standards Committee with the publication in March this year of a discussion paper on Disclosures in Financial Statements of Banks.

This paper arose out of discussions with the Committee on Banking Regulations and Snpervisory Practices of the Group of Ten major industrialised countries, together with Switzerland. It is possible that eventually the suggestions put forward in the paper may form the basis of and dard, though a lot of issues need International Accounting Stan- to be hammered ont first.

Suggested disclosures fall into three categories. First, around 20 balance sheet items are listed, and it is proposed that these should be further broken down in various ways. For example, loans and advances could be divided into commercial loans, personal loans, overdrafts and leasing receivables. Deposits could be split into sight deposits, time deposits and fixed term deposits.

Second come income statement items. These inclnde interest income and expense, fees for services and investment gains or losses. "Offsetting of income and expense items would not be appropriate," says the IASC paper.

There is also a third category for "other disclosures." These include foreign exchange exposures and, perbaps most crucially, a statement on the provision for loan losses and movements for the period inclnding charges and recoveries.

In practice only some of the large American banking groups come anywhere near the suggested levels of disclosure. For example, Bank America Corporation breaks down foreign borrowers into eight country categories, from industrialised countries at one extreme to low income developing nations at the other.

The high level of disclosure of loans loss provisions in the U.S., together with charges and recovaries, has now spread to tbe UK clearing banks, albeit with tha quirk that in the UK provisions are divided into specific and general categories.

Random

In contrast, to take as a fairly random example, the Hongkong and Shanghai Banking Corporation—which had such difficulty in getting U.S. regulatory approval for its takeover of the U.S. bank Marine Midland, largely because of lack of disclosure—secret inner reserves are much in evidence.

Its anditors, Price Waterhouse and Peat Marwick Mitchell, state that the accounts comply with the provisions of the Hong Kong Companies Ordinance applicable to banking companies. Oddly, in view of the IASC's strictures, they do on to say that the accounts give a true and fair view "on this basis."

The largest British bank, Barclays, is an intermediate case. Disclosure levels are gradually improving—the latest annual report gives a geographical breakdown of deposits—but there is still no analysis of the term structure of £26.3bn of deposits, and only minimal detail about the lending pattern.

Switch from grants to loans

CHINA

COLINA MacDOUGALL

THE AMERICAN banker in Hong Kong laid down his coffee cup and leant forward to emphasise his point. He was describing bis dealings with the management of a Cbinese enterprise, one of those recently permitted to negotiate direct with foreigners. "Do you know," he said in tones of incredulity, "the guy thought I was going to give him the money to cover his foreign exchange share of the deal?"

This misunderstanding is far from unlikely. For the past year the Chinese Press bas diacussed with more and more frankness the prohlems of tbe economy, and one that comes up most often is the long-established system under which Chinese enterprises receive non-repayahle State grants as Investment capital.

The very idea of repaying loans or of paying ioterest had until recently fallen into total disuse. The result has been, as Peking now freely admits, enormous waste and inefficiency. Even where, in the past, enterprises have been given bank loans (tbe People's Bank, China's central bank, had been allowed to top up grants with loans), they have been applied to all sorts of unorthodox purposes.

The grants system was installed in the 1950s. At that time China bad a reasonably efficient banking organisation, and tbe planning system was relatively easy to administer as the economy was small. However, tbe abandonmeot of so-called "bourgeois rules and regulations" in the long Cultural Revolution period and the expansion of industry over the years meant that strict control simply collapsed. China is now painfully trying to replace grants with loans ao as to make officials more responsible in their use of funds.

The People's Bank of China has 36,000 branches and was until recently the only channel of monetary flow. However, its funds, which come from deposits (both corporate and individuall are insufficient to provide loans to replace State grants.

Reconstituted

Hence in early 1979 the Agricultural Bank and the Construction Bank, which had been closed during the Cultural Revolution, were reconstituted to direct loans into farming and industry. To the Construction Bank (wich is financed by direct budgetary allocation) was given the task of experimenting with *a loans-only system.*

Laat November trial regulations were published for pilot loan schemes in the light, textile and tourist industries in selected projects in Peking, Shanghai and Guangdong province. The criteria for projects eligible for loans are practical (e.g., the products must be marketable and adequate infrastructure must exist) but of course much will depend oo how they are *applied.*

To strengthen the new Construction Bank, the State Council (Cabinet) has put it directly under its own aegis, reporting to the Ministry of Finance. In April this year, the Chinese claimed "remarkable results" for the new system, but for real evidence of this more time is needed.

In theory the Chinese banks regulate the economy tightly. The People's Bank plays a part in forming the State plan and the budget, helping to decide the level of money supply to balance the expected level of output.

In practice, however, this system no longer works. Contrary to the "readjustment" policy (io effect, retrenchment) which Peking embarked on last year, local investment has been continuing almost unabated and personal spending was at a much bigher level than before. Neither China'a planners nor tbe bankers were farsighted enongh last summer, when *workers* and *peasants* were accorded higher incomes, to calculate accurately the inflationary effects. Foreigners io Peking estimate tbe current inflation rate at 5-10 per cent.

Chinese officials also overlooked the lnflationary effect of the misappropriation of funda and of overdue loans. Now aware of the problem, the People's Bank has announced tbat from April 1 this year it will increase tbe normal 4.2 per cent interest on loans by 20 per cent for overdue loans, 30 per cent for loans tied up in overstocking and 50 per cent for repayment delays incurred by overspending.

It remains to be seen whether bank branches can actually enforce this; a recent People's Daily article made it clear that most accounting ln local government and factories is so poor—or so disbonest—that funds to finance a pet scheme can always be found somewbere.

In recent months dawning realisation of the problems has spurred the Chinese to take other action. Li Baobua, President of the People's Bank and a member of the State Council, in last November's Red Flag harangued the country's bankers on their duties and incidentally pointed up much that was wrong. The banks were clearly still giving too much support to heavy industry *instead of boosting agriculture,* light industry which would provide more consumer goods to sop up spending power.

Tbe People's Bank was also attracting insufficient savings. In the first eight months of 1979, urban accounts, according to official figures, at Ynan 19.3bn were 27.8 per cent up on the same period of 1978, while the equivalent rural figure was Yuan 3.2 bn, a 32.6 per cent increase. But this was clearly not enough to siphon off tbe spare money in people'a pockets, aa a thriving black market in the last six montha or so suggests. In an attempt to remedy the situation, tbe Bank has for the second year running raised its interest rates, both for depositors inside China and for Overseas Chinese.

The People's Bank, Li insisted, should be much stricter in its regulation of currency in circulation. Unauthorised capital expenditure all over Cbina has produced a situation in which, as be put it, "Capital construction pushes financial departments, financial departments push the bank and tbe bank issues bank notes." This conjures up an alarming picture of tbe People's Bank printing money on demand.

Perhaps the most biting reform in the People's Bank is tbat aach branch is gradually to be made accountable for its own profit and loss. Hitherto local branches simply passed on their *credits and debits to* head office and did not bother to recall loans that fell due or to raise further fuods by encouraging deposits.

The Bank of China, Peking's foreign trade bank, is a much more professional organisation than its internal counterparts. In line with China'a growing foreign trade, it has been expanding its overseas activities. In recognition of lts importance the leadership raised its status last year, separating it from the People's Bank, of wbich it was previously a part, and putting it, like the Construction Bank, directly under the State Council. At the same time a new hody, the General Administration of Exchange Control, was set up to co-ordinate all China's foreign transactions.

For the first time the Bank of China last year took part as lead manager in syndicated loans in London and Hong Kong—as well as a Midland Bank floating rate note issue on December 3. It opened a new branch in Luxembourg and waa planning two others in Tokyo and New York, plus a representative office in Paris. Its overseas borrowing—the first since the establishment of the Communist Government in 1949—which went ahead vigorously in the first half of last year, appears to be temporarily complete. It has now put together some $26bo of Government credit arrangements and commercial loans (see accompanying tables).

Extended

China has drawn on little of this, bowever. The British $1.2bn so-called "deposit facility" bas been partially used retrospectively to finance earlier deals and the limits bave been lowered to enable it to be used for mucb smaller contracts. China's first syndicated borrowing, from UBAF (Uninn de Banques Arabes et Françaises) was reduced from tha $500m agreed last year to $300m, and the maturity extended from 3½ years to five.

This appears to indicate Chinese concern about their ability torepay, and indeed there are signs that Peking is turning towards softer loans. In December 1979 the Japanese agreed to help finance six development schemes (for ports, railways and hydropower) reportedly with a long-term loan expected finally to reacb abont $1.5bn, at 3 per cent over 20 years. Peking also accepted a $4.8bn development loan, interest-free, with no *repayment* for the first 10 years, from Belgium.

In mid-April this year the International Monetary Fund voted to admit Peking in Taiwan's place. In mid-May the Chinese joined the World Bank, whose development programmes are believed to interest them. Generous U.S. Eximbank financing also aeems to be on the cards, following the approval by Congress early this year of the Sino-U.S. trade agreement.

WORLD EXTENSION OF CREDIT TO CHINA

Exim Bank Credits and Government-Guaranteed Loans

Country	Date	Amount ($m)
UK	12/78	1,200
Australia	4/79	56
France	5/79	7,140*
Italy	5/79	1,000
Japan	5/79	3,625†
Sweden	5/79	350*
Canada	8/79	1,720*
West Germany	10/79	1,100*
Belgium	11/79	173*
Sub-total		16,364
Commercial Bank Buyers' Credits to China		
UK	3/79 –4/79	675
France	4/79	500
Canada	4/79	100
Luxembourg	4/79	50
Chile	4/79	10
U.S.	6/79–10/79	28
Japan	8/79	8,004.6
West Germany	10/79	450
Sub-total		9,817.6
TOTAL		26,181.6

Source: China Business Review.

Note: The above Exim Bank credits carry an interest rate of 7.25 per cent per year for loans under five years, and 7.5 per cent for credit of five years or more. The nnly credit not to conform with these OECD guidelines is Japan's $1,900m loan to China in May, which carried an interest rate of 6.25-6.5 per cent. Interest rates on the above commercial bank loans vary according to the length of maturity; however, the interest rate on the loans of 1-5 years duration is 0.5 per cent per year above LIBOR, the London Inter-bank Offer Rate. LIBOR stood at 14.25 per cent per annum for six-month Eurocurrency credit as of February 1, 1980.

* *Loans* are denominated *in* local currency, hence their dollar valnes may change over time.

† Includes a 10-year Exim Bank credit for Y420bn ($1,900m), and a 30-year Overseas Economic Cooperation Fund credit for Y50bn ($225m) in fiscal 1979, and an additional $1.5bn to be disbursed during fiscal years 1980-86.

WORLD EXTENSION OF CREDIT BY THE BANK OF CHINA

LOAN RECIPIENT Syndication leaders	Date	Amount and terms ($m)
BEAM SHIPPING COMPANY (Philippines) Bank of China Paribas Asia	12/79*	$145 10 years, 3½-year grace period; LIBOR + 0.875
AFRICAN DEVELOPMENT BANK Chase Manhattan (London)	10/79	$150 12 years; LIBOR + 0.625 for 4 years; LIBOR + 0.750 for last 8 years
SUN HUNG KAI (Hong Kong) *Banque de Paris et des Pays Bas* (French)	10/79	$42 Terms NA; to build Hong *Kong office complex*
CHINA CEMENT COMPANY (Hong Kong) Bank of China Chase Manhattan Asia Hongkong and Shanghai Banking Corporation	1/80	$123 10 years; 4-year grace period
TOTAL		$460

Source: China Business Review. * Date of loan announcement, but syndication has reportedly not been nrganised as yet.

The Middle East

CONTINUED FROM PAGE XXXII

fact that the number of banks operating has been limited. They number 13, with 20 braaches in all, serving a population of about 250,000 of 20-25 per cent tbe size of the UAE's. At tbe end of 1979 total deposits spread amongst them totalled 3.39bn Qatari riyals ($923m) only a marginal increase on the year before. Advances, meaowhile, rose 16 per cent over the 12-month period and accounted for 96 per cent of total deposits.

Thus, the *profit* motive bas defied official policies and attitudes, resulting in uoaccustomed tension between the banks and the QMA. The latter's development haa in past years been constrained by the atatus of the Qatar National Bank, whose ownership rests largely with the Ruling Family. Thanks to a virtual monopoly of Government business the QNB controls about half the total deposits—a factor that has compounded the difficulties felt by the rest of the system this year. Other baoks regard its lending policies as conservative. Before the QMA asserted itself the old inter-bank agreement had been overtaken by market developments abroad and become meaninglessly out of line. Asserting its authority for the first time lifted rates that could no longer be observed anyway, to 4.5 per cent for savings deposits and 5-7 per cent for time deposits. The upper limit of 9 per cent for advances bas made for easy arbitrage killings. The result has been a large and continuing outflow of money.

Bahrain, too, has felt the drain of liquidity reaulting from low, regulated interest rates and fixed exchange rates. In 1979 advances were up some 8 per cent to 403.95 Bahraini dinars ($1.07bn) over the year but were baraly, only 98 per cent covered by deposits which declined slightly. This compared with a ratio of 84 per cent at the end of 1978. The net outflow of Babraini dinars was calculated at BD 42m with the result tbat tha net foreign asset position of the State was wiped out to almost zero.

Despite the lnstability in the region reflected by a fall in assets at tbe time of the fall of the Shah, again last November after the attack on the Grand Mosque, Mecca, and most recently in February, applications to operate off-shore banking units have continued and a number bave been granted so that more than 55 banks are now operating. Total assets grew last year by nearly 19 per cent to $27.8bn and reached $29.1bn at the end of March. No one now questions the success of the venture but as Mr. Alan Moore, the adviser to the Bahrain Monetary Authority wbo was largely responsible for it, said recently tbe market is a "fragile" one.

Original hopes that the official surplus funds from neighbouring oil producers might pass through the system have been disappointed. The venture proved the need for an international financial centre between London and Singapore bas been abundantly proved and in the process Bahrain established its claim to pre-eminence in the Gulf over other *rivals,* particularly Dubai. The OBUs bave also carved out a special role as an lnter-bank market ln the curreocies of the Gulf states, particularly the Saudi riyal. It is one that SAMA and the Central Bank of Kuwait have resented and tried to limit to the point of moving currencies against market trends with tbe result tbat tbe OBUs sustained substantial losse earlier tbis year.

European flights are often far dearer than in the U.S. Michael Donne explains why

The fight for cheaper air fares

IF A businessman wants to fly from London to Rome, it will cost him £138.50 economy-class single, for a distance of 1,070 miles. If he wants to fly a comparable distance in the U.S., say between New York and Kansas City, it will cost him just under half, or about £67. This parallel, taken at random, can be multiplied many times for other "city" pairs"—the accompanying chart lists just a few.

They are a sore point with many European air travellers, and they give added bite to the campaign launched last week, with the support of cheap-fares champion Sir Freddie Laker, and Lord Bethell a member of the European Parliament, to try to force the European Economic Commission into cutting short-haul air fares on this side of the Atlantic.

This time, the pressure is aimed at encouraging individuals to file their complaints against high fares directly with the Commission in Brussels, arguing that such fares violate Articles 85 of the Treaty of Rome. This prohibits illegal price-fixing and market-sharing arrangements, which Sir Freddie and Lord Bethell believe to include air fares.

They are taking this line largely because so far other actions — including bids for cheap-fare licences by Laker Airways and other UK independents, and by such Continentally-based independents as Sterling of Denmark—have not yet achieved the success that had been hoped.

But the volume of complaints is mounting. The Transport Committee of the European Parliament is now studying European air fares, and will report later this year on the need for cheaper rates, with suggestions as to how they can be achieved. The EEC itself circulated a memorandum last summer arguing for cheaper and simpler fares, which it thought could be achieved by "evolutionary" rather than "revolutionary" means. It suggested the introduction of third-class tickets, stand-by rates, and special "no frills" tickets, among other measures.

The UK Civil Aviation Authority, although ostensibly in favour of cheaper fares, recently rejected bids by several UK airlines — Air UK, Britannia, British Caledonian and Laker — for a big increase in the number of cheap fare routes to the Continent, suggesting instead that the Department of Trade should start a "dialogue" with European countries in a bid to stimulate the latter's currently lukewarm interest in cheaper fares.

European airlines can now point to the heavy losses being incurred in the U.S.

Mr. John Nott, Secretary for Trade, has already said that the present level of European fares is too high, and that "nothing could be more important than enabling European citizens to travel between European cities at prices they can afford." But the French Government still blocked British Airways' recent bid for a cheap £20 Channel-hopper fare.

At a time when most of the foreign airlines on the Continent have been arguing that the present climate of soaring costs is not ripe for cuts in fares, the UK airlines, and especially the independents headed by Laker, have been counter-arguing that by running "tight ships" with low overheads (including smaller staffs), and no frills, they can offer much lower fares, and by generating traffic, make money. All they have been asking for is the right to try to prove their point.

The starting point for the argument in favour of cheaper fares over recent years has been the comparison with rates in the U.S., which tend to be much lower for comparable distances. This discrepancy has been frequently used as a stick with which to beat the European airlines, but the latter can now point to the heavy losses being incurred in the U.S. In the first quarter, seven of that country's 10 leading airlines failed to pay dividends on common stock, the biggest losers being United, more than $40m; Pan Am, $75m; American, $42m; and Trans World, $49m.

This, it is being argued in Europe, indicates that air fares in the U.S. have been much too low, that the U.S. Government, while espousing de-regulation and encouraging competition, has failed to allow the airlines to recover their soaring fuel bills quickly enough through higher fares, and that the more cautious European approach has been the correct one all along.

While some part of the difference in U.S. and European fares undoubtedly lies in the lower level of overall efficiency of some European operators, especially on short-haul routes, there are many other reasons for it. These are divided broadly into external factors (that is, outside the airlines' control), and internal (within their control, provided they feel motivated to do something about it, which is by no means a universal attitude).

Among external factors, two play a big part. Fuel in the U.S. is much cheaper, averaging about 80 cents a gallon in the first quarter of this year against 100-115 cents in Europe. Secondly, in the U.S. en route navigation facilities are Federally funded, and not charged to the airlines, whereas in Europe they are a heavy impost, passed on to the passengers.

Other external influences on West European fares include air traffic control problems. The many different European national air traffic control services, with large areas set aside for military flying, result in complex and often (in the airlines' view) poorly co-ordinated air traffic control patterns, requiring much more flying for a given distance than in the U.S., thereby putting up costs.

The average short-haul distance flown between "city pairs" in the U.S. is about 930 miles, whereas in Europe it is about 640. Thus European aircraft tend to get less utilisation than their U.S. counterparts.

Moreover, night curfews at European airports are more widespread than in the U.S. Heathrow, for example, is virtually shut for jet movements throughout the night, almost one-third of its potential working life. If it could be used at night, the traffic could be spread more widely through the day, the new £150m fourth terminal (on which work is about to start) might not be necessary, and landing fees might be cheaper.

Finally, there are strong tendencies in Western Europe towards protectionism, with nearly 20 governments involved. In the U.S., there is one government policy for all airlines, and that is being gradually liberalised as a result of deregulation. In Europe, the tendency is to become more restrictive, especially as times get tougher financially for the airlines.

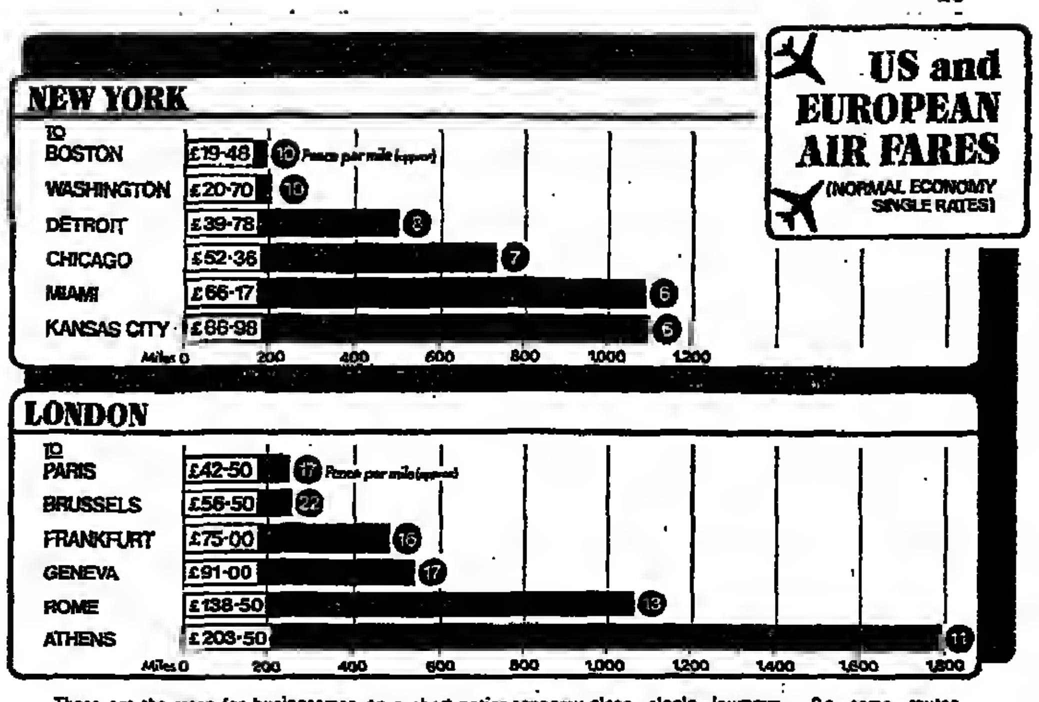
Thus, when the UK airlines want to introduce cheaper fares —as they often do—they find themselves blocked by foreign governments which are anxious to protect their own flag airlines and are much less interested in reducing fares.

The internal factors—those within the airlines' control—are more debateable, because they reflect directly on the airlines' efficiency. Airline staff levels tend to be higher in Western Europe. A much higher proportion of European flights is international, involving many different exchange rates, so that ticket issue is more complex, involving longer studies of fares manuals, and thus more time spent on each ticket, and a higher ratio of sales staff to passengers than in the U.S.

Several measures in Western Europe would probably go a long way towards solving these problems—a simplification of the fares structure; increased computerisation of both fares calculations and ticket issue; a higher volume of staff training; and probably also greater staff motivation. The fact that every European airline is lacking in one or more of these areas must help to keep costs, and hence fares, higher on this side of the Atlantic.

There is also little doubt that many airlines in Western Europe have been slower to react to consumer pressures for cheaper fares. One reason for this is that, in the past, much of the immediate demand for cut rates has been met by cheap holiday inclusive tour package fares (which, to be fair have often been cheaper than rates for equivalent distances in the U.S.). It is only in comparatively recent years that this demand has spilled over into the scheduled airline sector.

This again tends to account for the fact that many of the so-called "cheap rates" offered so far have been in effect little more than "fill up" fares, designed to reduce the number of otherwise-empty seats at odd times of the day or week on scheduled flights. Widely-trumpeted "drastic cuts" in European short-haul fares have upon analysis proved to be of this nature. Passengers do use them, but they have not generated the big increases in traffic that the airlines hoped for.



These are the rates for businessmen on a short-notice economy-class single journeys. On some routes, special cheaper rates may be available, but with restrictions, such as on time of travel and length of stay.

Apart from the UK independents' abortive bids, it is only this spring that there has been any fresh attack on short-haul scheduled air fares in Western Europe. This has come from British Airways and Air France, with their joint experimental abolition of first-class rates on the London-Paris route, and the substitution of the new Club Class and Economy Class rates, in a bid to simplify the fares structure as the best way of getting rates down. If it works (and so far the aircraft have been full), BA in particular wants to spread the system through its network.

But even the BA/Air France experiment does not approach the revolutionary concepts put forward by Laker for Skytrain-type cheap-fare services throughout Europe, or the Britannia Airways plan to sell up to 50 per cent of the seats on its holiday flights to scheduled passengers at cut rates.

Many of the short-haul routes sought by Laker were directly between cities on the Continent, so that they were outside the CAA's legal authority to grant. But Laker's point was that unless someone tried to force the issue, and so get cheaper fares in Europe, no-one would be likely to do anything drastic at all. Similarly, Britannia's bid for scheduled tickets on holiday flights, and British Caledonian's bid for "Mini-prix" rates on many new Continental routes from Gatwick, were bold attempts to broaden the whole base of cheap-fare flying in Western Europe.

But these bids seemed to frighten the CAA at what the strongly protectionist European Governments would do, and so it rejected virtually all the bids, giving B.Cal only six routes out of 20 it asked for, and suggested instead that the Department of Trade started its "dialogue" with those governments. The independents believe that, had the CAA grasped the nettle and allowed their bids, there would have been a firmer basis for such a dialogue as a matter of urgency.

As it is, no-one is any further forward — such "dialogues" have been tried before, without much success, for example with Scandinavia. Apart from the Air France share of the London-Paris experiment, there have thus been no major Continentally-generated initiatives towards cheaper scheduled fares, and it seems unlikely that in any such dialogue with the Continent the UK Government will get what it wants except without a major struggle, lasting a long time.

This is why Laker wants to go further, faster. Sir Freddie is planning to take his own case to the European Court if he gets nowhere with Mr. Nott and the British courts. He strongly believes that Article 85 of the Treaty of Rome effectively bans all price-fixing, especially by the scheduled airlines in the International Air Transport Association, and that legally his bid for cheap-fare short-haul routes cannot be blocked.

But getting the other governments of the Nine to agree is another matter. Every flag airline on the Continent is a cherished instrument of national policy and prestige, and the case for protectionism—and keeping fares high—is being strengthened by today's increasingly tougher economic climate, with soaring costs, especially of fuel, bolstering the case against cheaper fares.

Letters to the Editor

Public sector pay

From Dr. J. Collings.

Sir,—The proposals for allowing market forces to operate in the determination of public-sector pay put forward by Samuel Brittan (May 22) have considerable merit. The simple economic logic on which they are based, however, breaks down in precisely those areas in which the need for an alternative to pay comparability is greatest.

For staff who have a high degree of mobility between the public and private sectors (e.g. secretaries, economists, HGV drivers), it may be entirely appropriate to set public-sector pay at a level just sufficient to keep posts adequately staffed. In principle, however, this process should produce results which only differ from those of comparability studies in-so-far as the latter make incorrect adjustments for differences in conditions of service such as pensions and job security.

Pay comparability is far less obviously appropriate in the many areas of the public sector which depend on skills for which there is little or no private-sector demand. Thus excellent teachers or senior civil servants might find that the skills they have acquired are of no interest to the private sector. In these areas of the public sector, pay comparability depends on the doubtful proposition that it is possible to determine a "fair" position for each grade relative to the private-sector pay league table. Unfortunately, the lack of mobility of experienced staff between public and private sectors also undermines Mr. Brittan's simple competitive model by introducing an element of monopoly power in the public sector's position as an employer. Applying the market clearing principle on a grade-by-grade basis under these conditions might result in senior staff being paid less than junior staff because of poorer employment opportunities in the private sector.

In defence of the market clearing principle, it could be argued that the ability to fill vacancies in recruitment grades provides an indicator of whether the expected rewards over the whole career are comparable in the public and private sectors. Ability to recruit, however, does not indicate whether pay differentials within the career structure are correct. Thus if a system is to be operated of setting pay in the public sector so as to just fill recruitment grades, a decision has to be taken somehow on what the correct differentials should be. One possibility would be to use some form of comparison with differentials in the private sector.

Dr. John Collings
The University of Aston,
Management Centre,
158, Corporation Street,
Birmingham.

Staffing levels

From Mr. J. Pezzey

Sir,—Samuel Brittan (May 22) is right to ask for more attention to be paid to the laws of supply and demand when determining public sector pay, but he is wrong to have begged a question of equal importance, namely: how should one determine the correct demand for public servants?

I should like him to answer that question with particular reference to mathematics teachers and to my own mini-profession of energy conservation research scientists. In the former the desired staffing level is determined by many years of precedent, and the achieved level is well below that because wages are too low. In contrast, the staff "requirement" for energy conservation researchers is determined by senior government scientists but the present 30 per cent. shortfall in our particular area has been caused not primarily by low wages (though with the likelihood of a pay rise this year far below the well-publicised recent rises for administrative civil servants, I'm not complaining of being overpaid), but by the imposition by even more senior government policy-makers of an almost total ban on recruitment for the past four years.

Perhaps the connection between the understaffing in the two professions is that both produce "public investment goods"—a numerate populace and rational guidance for energy conservation policy—and so expenditure on these goods can be reduced for short-term political reasons without full regard to the long-term impact on the economy.

John C. V. Pezzey.
21 Ashby Road,
Watford,
Herts.

The whipping boys

From Mr. L. Brookes

Sir,—It is a pity the Prime Minister does not realise that public sector bashing is no more attractive a stance for a Government than union bashing or Mr. Healey's squeezing of the middle class until the pips squeak.

Her attitude is all the more to be regretted for being based on false facts for a large part of the public sector. Public sector pay cannot "lead the way into inflation" if it is based on following the pay of other workers well after they have had their increases.

There is only one reason why some public sector pay increases in the area covered by comparability arrangements have appeared to be larger than increases in the retail price index. It is that it was largely only in the public sector that the Labour Government's pay restraint was fully enforced. If it had been enforced throughout the economy there would have been nothing to come under comparability when it was partially reintroduced.

I use the words "appeared" and "partially" because of the practice of staging pay increases —which means that increases agreed to be merited on, for example, April 1, 1979 are not fully honoured until April 1, 1980. The height of absurdity was achieved on the latest increase when the first instalment of the increase estimated to be due from April 1, 1980 was zero —nothing was paid until May 7.

The civil service unions have shown great restraint in accepting these arrangements. They represent substantial departures from the pay agreement based on a formula introduced by a Tory Government in the 1950s.

Some of us have been at the receiving end of all three of the bashings mentioned in my first paragraph. We went through four of the most inflationary years in our history with virtually no pay increases. In my case it meant cashing insurance policies and in other ways running down hard won savings just to pay the monthly bills. We are entitled to resent being told we are taking out more than our share when some badly overdue catching up is being partially achieved. The Prime Minister refers to "setting an example." "Sending for the usual whipping boy" would be more apt.

L. G. Brookes.
16, Ipswich Road, Bournemouth.

Freight change

From the Head of Communication Services National Freight Corporation

Sir,—We were very appreciative of the space devoted by your correspondent to the National Freight Corporation's annual report and accounts (May 21), but I would be grateful if you could allow me to correct the impression given by the main headline.

The Transport Bill before Parliament provides for changes in the Corporation's structure and financing in two stages: a conversion from a loan-financed corporation to a limited company with equity shareholding —owned, at least initially, wholly by the Government; and the offering of shares to the public at a suitable time.

It is the first stage, the conversion to a limited company, giving us financial flexibility, which the Corporation has said it would like to see as soon as possible after the Royal Assent. The second—which involves a question of ownership—is a matter for Government and Parliament, on which the NFC has not expressed a view.

Brian Cottee.
National Freight Corporation.
Argosy House,
215 Great Portland Street,
W1.

Cricket in Corfu

From Mr. D. Willan.

Sir, — No article on present-day cricket in Corfu (Weekend Brief, May 10) is complete without mention of the name of Major John Forster. It is he who put such a lot of hard work into getting the game going again after World War II. While in no way belittling Mr. Brocklehurst's contribution in recent years, the fact remains that without John Forster's effort there would be no cricket in Corfu today.

D. P. Willan.
Donnybrook, 52, The Avenue,
Alverstoke, Gosport, Hants.

Bias against building

From Mr. D. Brown.

Sir, — Your correspondent (May 20) questions the motive behind the construction industry tax deduction scheme, so do I!

When the present legislation was introduced by the previous government it appeared that the intention was to regulate the "lump" workers in the industry, in preparation for nationalisation. The Conservatives vigorously opposed the introduction of this Act in a three-hour debate on February 9, 1977. The result of the recent review, however, is quite disgraceful, amounting to the Inland Revenue admitting that public liability insurance has nothing to do with tax collection and a few small amendments to the rules.

This Act still remains the most outrageous piece of legislation imaginable. The building industry operates by courtesy of the Inland Revenue. The "714" is a work permit. To obtain one it is necessary to produce a photograph for the identity card. A further photograph to be held on file in the Inland Revenue office. To agree to "substantially use a bank account" to "promise to pay tax promptly." To declare that "I have complied with all obligations imposed on me by or under the Income Tax Acts etc." and have "paid any contribution due under Part 1 of the National Insurance Act" etc. It is then necessary to parade before a tax official to see if your face fits before being issued with a "714" work permit.

This "licence" must then be produced, in person, to any client defined as a "contractor" within the Act, enabling payment to be made gross. "Without a 'licence'" 30 per cent is deducted from the labour content. A limited company has a "714" licence without a photograph.

It is my opinion that the Inland Revenue should not dictate who shall, or shall not, operate in the construction industry. I believe that this is a political not fiscal matter, and requires an independent inquiry.

David Brown.
302 Ford Green Road,
Norton, Stoke-on-Trent.

Motorway in Yorkshire

From Mr. K. Roberts.

Sir,—I feel that the views expressed by Mr. Watkinson (May 15) regarding a motorway link in Yorkshire cannot pass without comment.

The motorway link he is advocating between the A1 and A168 passing to the west of Leeds is the designated "blue route," which was rejected by at least one public enquiry.

A public enquiry was recently terminated by the direct intervention of the appropriate government department because the engineering difficulties are such that the cost to benefit ratio would be grossly uneconomical and to continue the enquiry would be a waste of government and private funds.

Investigations and alternative plans are currently well advanced to continue the M1 and M62 to the east of Leeds and then northwards as an improved A1. Three alternative routes are the subject of another enquiry.

Certain groups of businessmen and hauliers in the area are not prepared to accept these decisions are organised for continual lobbying to get the "blue route" proposals re-opened.

To state that rejected route would have used mainly pasture land is true and it should be emphasised that in doing so it would have destroyed not only farms but also a truly lovely green belt area between Leeds and Bradford and violated the beautiful country of the lower Wharfedale valley.

K. Roberts.
33 Southway, Horsforth, Leeds.

Today's Events

GENERAL

UK: Mr. Peter Rees, Treasury Minister, speaks at Institute of Directors conference on "The Budget—the changes in the 1980 Finance Bill which affect business," London.

Herr Willy Brandt, chairman of Independent Commission on International Development Issues, speaks on the "North-South Challenge to the West," All Souls College, Oxford.

Tynwald (Manx Parliament) meets to consider first Budget controlling indirect taxation.

Isle of Grain mass picket planned over striking laggers at power station.

Barclays Bank launches new petrol purchase credit scheme.

Variety Club tribute luncheon to Mr. Gene Kelly, London.

Advisory, Conciliation and Arbitration Service annual report published.

National Union of Public Employees conference continues, Eastbourne (to May 27).

Amalgamated Society of Boilermakers, Shipwrights, Blacksmiths and Structural Workers biennial conference, Scarborough.

National Association of Head Teachers conference continues, Cheltenham (to May 27).

Glyndebourne Festival Opera Season opens (to August 11).

Overseas: EEC Finance Council meets, Brussels.

Last day of Queen's visit to Australia.

Elections begin in nine stages in India (to May 30).

Nordic Countries/World Health Organisation two-day conference opens on development of national medical technologies assessment programme, Copenhagen.

M. Raymond Barre, French Prime Minister, starts two-day official visit to Norway.

Petroleum and Marine Environment International conference and exhibition opens, Monte Carlo (to May 30).

GATT Multifibre Arrangement (MFA) three-day conference opens, Brussels.

Sir Peter Gadsden, Lord Mayor of London, visits Atlanta, Georgia, U.S.

OFFICIAL STATISTICS

Preliminary estimate of gross domestic product based on output data (first quarter). Retail sales (April—provisional).

COMPANY MEETINGS

See Financial Diary on page 20.

John Laing sees rise in civil engineering sector

ALTHOUGH a further drop in the UK construction market is indicated for 1980-S1, there are signs that ibis will not apply in civil engineering where there may be a modest volume increase, Sir Maurice Laing, chairman of John Laing, tells shareholders.

The total housing market will certainly be less than in any post-war year but the chairman is confident that this market must revive shortly.

The group will continue with its expansion policy ready for the upturn and directors intend to increase the share of this market, Sir Maurice says. Ways of expanding and improving the products and trading side are also being sought.

Overseas, further work has been obtained in Egypt, Jordan and elsewhere in the Middle East. The associate company in Nigeria is making headway and marketing has been extended particularly in the Far East.

The group is continuing its search for further opportunities, not only in building and civil engineering, but also in mechanical engineering contracts, the chairman says. Recent contracts awarded include a £10m contract for a prison near Madrid and a 25.6m contract for a Holiday Inn motel in Jeddah.

For 1979, the group reported pre-tax profits down from £14.76m to £11.27m on turnover of £521m against £483m.

Extraordinary items of £2.04m (£3.36m) include a further provision of £2m against the book value of the investment in the Altech Group. The directors say an offer from the majority shareholder to buy back the group's 40 per cent interest is the subject of arbitration proceedings.

Book value of land and buildings increased during the year by £2.78m to £25.75m.

Sir Kirby Laing, the deputy chairman and brother of the chairman is to retire from the Board on his 64th birthday in July and will be succeeded by Mr. G. F. Parsons, the present chief executive. Meeting, Hemel Hempstead, June 19 at 2.15 pm.

BOARD MEETINGS

The following companies have notified dates of Board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims: Kelsey Industries, Moran Tea, Scottish National Trust, Stag Line.

Finals: Barlows, P. Panto, William Pickles.

FUTURE DATES

Interims—	
Dundee & London Invest. Tst.	June 19
General Stockholders Inv. Tst.	May 28
Proprietors of Hay's Wharf ...	May 29
Finals—	
Anglo American Corpn. of South Africa	June 5
De La Rue	June 3
Highgate Optical	June 10
Leigh Interests	June 5
London Sumatra Plantations ...	May 29
Marlborough Property	June 2
Standard Fireworks	June 4

Equity Capital expansion

AFTER A quiet period, there are now signs of an increase in demand for the services of Equity Capital for Industry, Lord Plowden, the chairman, says in his annual report.

Equity finance for companies may not be readily available from traditional sources and it is these circumstances that ECI is expected to play its major role, the chairman says.

Last year was the quietest since the inception of ECI and one area of ECI's role—the financing of recovery cases—was subdued. In all, about 30 companies were considered during the year and of these 13 were declined on the grounds that there were insufficient prospects to justify an investment.

However two new investments last year by ECI were a 6.5 per cent stake in Dorada Holdings and a 4.4 per cent stake in the enlarged GEI Group.

Combined gross income of £5.1m in the year to March 31, 1980, was some 20 per cent higher than the previous year, due almost entirely to higher bank and short-term deposit interest.

Investment income of £779,000 shows little change from the previous year's £770,000

£0.39m fall at Wilson Bros.

A FALL in pre-tax profits from £1.02m to £0.63m is reported by Wilson Brothers, the greeting cards publisher, for the year to March 31 1980. Turnover rose slightly from £13.44m o £13.97m.

Expenses accouned for £142,293 (£118,534) and interest £550,655 (£312,823). Taxation took £103,305 (£236,239), leaving an net profit of £0.53m (£0.78m). Earnings per share are given as 4.61p (6.81p).

Under the terms of the offer by Fine Art Developments, shareholders will receive a second interim dividend in lieu of a final equivalent to 1.1p. Last year's total was 1.8p.

Howard and Wyndham

PRE-TAX profits of Howard and Wyndham, publisher and retail jeweller, fell from £232,000 to £105,000 in the six months to December 31, 1979, and the directors are forecasting losses for the full year. For 1978-79, there was a pre-tax loss of £526,000.

Turnover for the first half fell from £9.12m to £7.51m and profits were struck after interest of £219,000 (£272,000). Tax absorbed £98,000 (£69,000) and, after extraordinary credits of £13,000 (£142,000 debits), the attributable balance totalled £20,000 (£121,000). The loss per 20p share was 1p, compared with earnings of 3.7p.

Tricentrol U.S. placing to raise some £21m

Tricentrol, the UK-based energy and commercial group, should raise around £21m through its plan to offer shares in the U.S. and Canada.

The company has made the necessary filings for the offering of 3m American Depositary Shares (ADS), equivalent to 6m ordinary shares. Tricentrol shares closed at 348p in London on Friday. The public offering is being made through an underwriting syndicate headed by Goldman, Sachs and Wood Gundy.

Tricentrol has already won shareholders' approval for the offering and is proposing to list all its shares on one or more North American exchanges, probably New York and Toronto. These steps are being taken in line with the group's strategy of expanding its North American oil and gas interests.

Viners in loss but confident

FOLLOWING the midway turnround from profits of £46,000 to losses of £27,000, Viners, manufacturer and factor of cutlery and holloware, incurred a pre-tax deficit of £104,839 for 1979, compared with a £170,523 surplus.

Nevertheless, the directors are confident of the group's future and say first-quarter 1980 sales show a real increase of 15 per cent.

Turnover for the year improved slightly from £10.7m to £11.15m and after a tax credit of £52,193 (£79,080 charge) the loss per 10p share is shown as 0.91p (1.21p earnings). The dividend is omitted—last year's total was 1p net. There is an extraordinary credit this time of £58,631.

Directors say the results reflect a number of factors. There was a shortfall in sales by UK companies and low margins on some business obtained. Management problems arising out of computerisation brought a profit shortfall in France, and the volatile price of silver, strong sterling and high interest rates also had adverse effects.

BIDS AND DEALS

Ferguson Lacey share disposals

MR GRAHAM Ferguson Lacey is expected to announce today that he has sold his 14.6 per cent stake in Arbuthnot Latham the accepting house, in which Cook Industries, a U.S. agri-products and insurance group has been building up a 9.54 per cent holding.

Mr. Ferguson Lacey is also expected to announce the sale of his near 30 per cent holding in Edinburgh General Insurance Services (formerly Edinburgh and General Investments) of which he became chairman a year ago.

Shortly after taking over the board Mr. Ferguson Lacey sold his private insurance broking company, Meara Gibson, to Edinburgh, and made a three for five rights issue.

The sales of these holdings will leave Mr. Ferguson Lacey with a portfolio almost entirely in the energy sector. The exception is Bernard Wardle, the vinyl textile manufacturer which he recently took over.

SHERATON SECS.

English Association has received acceptances of its offer for 1,803,774 ordinary shares in Sheraton Securities International totalling 177,347 shares (2.2 per cent). The offer is now closed.

OIL MERGER VALUATION

An independent report has been drawn up assessing the values of the oil, gas and uranium interests of three linked oil companies which are discussing a full merger—Cambridge Royalty Company of Houston in the U.S., Cambridge Petroleum Royalties of London, and Petroleum Royalties of Ireland, based in Dublin.

They show relative values of each company's energy assets totalling $10.72m for Cambridge Royalty, $12.87m for Cambridge Petroleum, and $10.33m for Petroleum Royalties.

The figures, compiled by DeGolyer and MacNaughton, petroleum engineers of Dallas, Texas, do not cover the companies' other assets or liabilities, or their share and option cross-holdings in each other.

Merger talks between the three —Cambridge Royalty manages the other two—were announced in February. Further talks will be held soon.

Improvement forecast by Rush and Tompkins

A LARGE development programme, fully financed and substantially pre-let or under offer, and an increased forward order book on construction should allow Rush and Tompkins Group to achieve improved results in 1980, Mr. Derek Palmar, chairman, says in his annual statement.

However, he adds that the start of the current year, for this property investment and estate development concern, has been marred by the national steel strike which will affect supplies "for many months."

He says group projects now in hand which were started in the past two or three years, and which may take another three or four to complete, will have a total value on completion, of well over £100m. Many will be sold, but some will be retained.

As announced on April 24, pre-tax profit for 1979 rose by about 40 per cent from £1.17m to a record £1.63m on turnover up 34 per cent from £61.23m to £81.76m. The final dividend is 2.5p, lifting the net total from 3.233p to 3.75p.

The annual meeting will be held at the Charing Cross Hotel, WC, on June 12 at 2.30 p.m.

Progress for Tarmac in difficult year

Reduced volumes in a number of Tarmac divisions are being budgeted for this year but despite this the group expects to make further progress in 1980, Mr. E. W. Wright, the chairman, says in his annual report.

Pre-tax profits last year improved from £26.47m to £38.03m from turnover of £836.27m against £752.03m.

In July, the remaining equity interest in Cubitts Nigeria was sold and the group has now no involvement in Nigeria. The remaining interests in Germany were sold in November producing a reduction in net borrowings of some £5m.

The accounts also show ex-gratia payments to former directors of £215,000. Meeting, Hyde Park Hotel, Knightsbridge, SW, June 17 at noon.

Seligmann Rayner joins NY Exchange

Seligmann Rayner, the small city brokerage house, has become the first British firm to join the New York Stock Exchange. The move follows recent changes in regulations, permitting foreign firms to obtain membership of the exchange.

Seligmann has not opted for a seat on the exchange though its senior partner, Mr. Robert Harris, said that it may want to pay for a seat after it has become thoroughly familiar with the NYSE.

The firm has set up an associate company, Seligmann Harris Inc., to deal on the exchange. Seligmann Rayner and Mr. Harris each own 40 per cent of the new company, with London Trust and a private U.S. investor making up the balance. Seligmann Rayner has been active in the London trade options market and intends to establish a presence in the New York options market through its new associate.

FT Share Information

The following securities have been added to the Share Information Service appearing in the Financial Times:—

Air Call (Section: Electricals)

Marley (R. H.) (Chemicals)

Trust of Property Shares (Property)

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INTERNATIONAL CAPITAL MARKETS

U.S. BONDS

BY DAVID LASCELLES

Fed easing of reins to prolong rally

THE FED's decision last Thursday to dismantle some of the credit restraints it imposed only a couple of months ago has had both a direct and psychological effect on Wall Street, and it is bound to prolong the extraordinary rally in the bond and money markets. But some people are concerned that the Fed could be tempted to overlook the problems of inflation and the dollar in its efforts to steer the U.S. economy out of a recession.

Wall Street had been expecting some kind of move from the Fed all week, but its expectations had focused mainly on a cut in the discount rate. Instead, the Fed announced a broad easing of credit controls, generally halving the amount of extra reserve requirements that banks and other financial institutions were required to put up as part of the March anti-inflation package.

At the same time, it listed a number of exceptions to its requirement that banks keep their lending growth to 6-9 per cent this year. These include obviously depressed industries like cars and housing, but also allow special treatment for the farmers and small businessman, both of whom have been driven out of the credit markets by high rates.

The other special exemption, for energy-related finance, should also revive interest in spending for fuel conservation, which is good news for the U.S. oil import bill.

In practical terms, these measures should give a spur to economic activity, and pump an estimated $1bn of freed reserves back into the banking system. They should also sustain the recent decline in interest rates, though it is unlikely that this week will bring any huge acceleration, because the market had largely discounted a Fed easing by the end of last week.

Psychologically, the easing also had an impact because it was a measure of the Fed's concern for the state of the economy. Forecasts about the looming recession had become gloomier almost day by day, and the unprecedented drop in the money supply was an unhealthy sign. The easing may also reassure the U.S. consumer who, if grass roots reports are to be believed, had been holding back his spending as a patriotic act.

The Fed's easing coincided with the first "break" in inflation in nearly a year. The consumer price index released on Friday showed a rise of 0.9 per cent, well below the 1.5 per cent or so of recent months. If this trend persists, it would certainly justify some further easing of credit policy. However, there is some concern in Wall Street that the Fed may have relegated the fight against inflation to second place, behind fighting the recession. Although the Fed has said that last week's easing did not mark any change in basic credit policy, these concerns are bound to grow if the latest inflation figures turn out to be no more than a freakish blip.

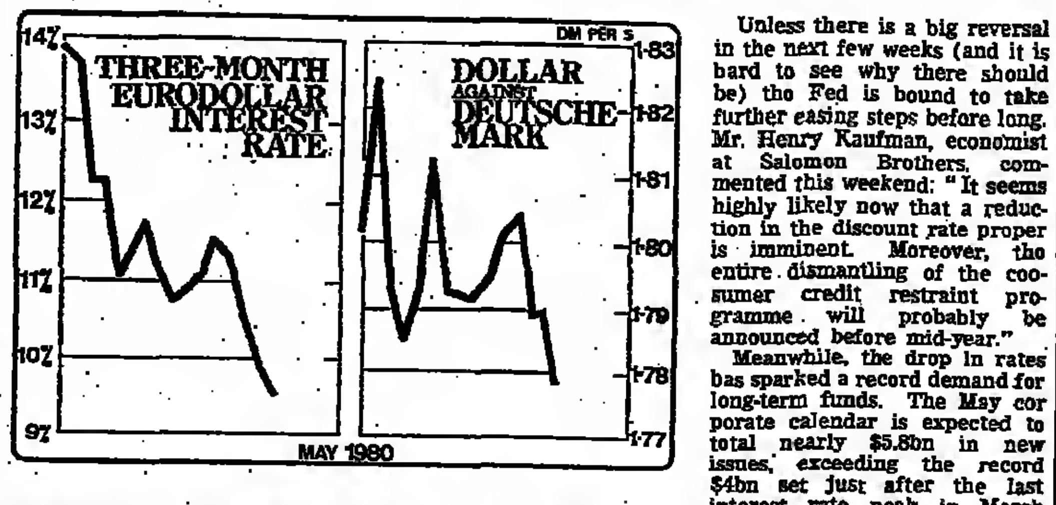
Significantly, the Fed has stuck to its 13 per cent discount rate even though market rates have fallen way below this. This may well be a deliberate ploy to reinforce the message that basic policy has not been changed. It may also have been designed to reassure the foreign exchange markets which attach considerable symbolic importance to "official" interest rates.

But, though the discount rate is now meaningless in market terms, some Wall Street economists say it will provide a useful gauge of bank health, since only poorly managed banks would be obliged to use the discount window in present conditions.

Unless there is a big reversal in the next few weeks (and it is hard to see why there should be) the Fed is bound to take further easing steps before long. Mr. Henry Kaufman, economist at Salomon Brothers, commented this weekend: "It seems highly likely now that a reduction in the discount rate proper is imminent. Moreover, the entire dismantling of the consumer credit restraint programme will probably be announced before mid-year."

Meanwhile, the drop in rates has sparked a record demand for long-term funds. The May corporate calendar is expected to total nearly $5.8bn in new issues, exceeding the record $4bn set just after the last interest rate peak in March 1975. Although this is ominous in one sense because it implies that corporate treasurers are racing to borrow before rates go up again, it also reflects the huge borrowing backlog that built up while interest rates were soaring into the stratosphere.

This week's calendar includes a broad range of corporate and utility issues, including $200m in Ford Motor credit three-year notes and $100m in seven-year notes, all rated AA. Next Friday brings the next important economic statistic, the index of leading economic indicators which should bring further evidence of the recession.



U.S. INTEREST RATES (%)

	Week to May 23	Week to May 16
3-month Treas. Bill	7.55	8.93
3-mnth. cmcl. paper	8.75	9.20
Fedrl. Funds weekly average	8.51	11.13
Treas. 30-year bond	10.31	10.42
Lng-term AAA utility	11.25	11.56
Lng-trm. AA industrl.	11.00	10.97

Source: Salomon Bros. estimates.

INTERNATIONAL BONDS

BY FRANCIS GHILES

Even the little guy returns

THE INTERNATIONAL bond markets are happy places to be in these days. All the gloom and doom of last winter has evaporated as dealers and new issue managers watch U.S. interest rates nosedive. Last week alone the prime lending rate in the U.S. dropped by an average of two points.

The six-month Eurodollar rate last Friday fell to 9¹⁵⁄₁₆ per cent. Yields on dollar denominated issues are at least two points above this level and this is bringing back into the market even the famous "Belgian dentist" who was deemed to have deserted for ever.

To date, the weakness in the U.S. currency resulting from the sharp fall in interest rates has not been sufficient to put a damper on the bull market. One explanation may be that the amount of buying from U.S. funds appears to have been very large.

Some recent straight dollar issues rose to record premiums last week. The $500m three-year notes for Sweden traded at 111 at which level they yield 11.21 per cent. Issues which were initially not well received climbed sharply—for example the $75m McGraw-Edison bond to 1985 rose by nearly three points on the week to 100⅛-⅜.

Longer dated bonds also did well and the 12⅞ per cent issue to 1995 for Caisse Nationale de Telecommunications launched at par a month ago is now offering a yield of 12 per cent.

The rise in prices was also helped by the scarcity of new paper: only three new issues, two of them floating rate notes. The third, a straight bond for Roylease which offers the investor a yield of 11¼ per cent vanished into portfolios without trace and was trading last Friday around par.

The caution which many European investors showed earlier in the week appeared to have been thrown to the wind on Friday—a day which proved to be exceptionally busy for the eve of a long week-end.

The first Eurosterling FRN, through which Scandinavian Bank is raising £20m for 10 years, has so far proved only moderately attractive to investors. Part of the problem is that foreign investors interested in sterling are inclined to buy fixed interest paper at the moment—they were the driving force behind the UK gilt-edged market last week.

But the name has not helped get this novel denomination of FRN off to an effervescent start either. Despite a strong reputation as a bank, Scandinavian's relatively small size and the fact that it is a consortium bank do not give its subordinated notes quite the pull of those issued by a non-consortium heavyweight.

Sterling denominated straight bonds rose by about ¾ per cent last week, helped by the strong gilt-edged market. Meanwhile, European Banking Corporation decided to cut back its market making in this sector to one bond. It will however continue to deal in Eurosterling bonds.

The Deutsche Mark foreign bond sector also continues in good shape with a steady flow of foreign buying. Two new issues were announced last week, a private placement for Arbed Finance and another for a Japanese borrower. At the same time the DM 100m bond for AKZO was increased by DM 25m to DM 125m.

The stability of the German currency, plus the widespread feeling that D-Mark interest rates will inevitably come down in the wake of the fall in U.S. dollar rates, make all the recent foreign D-Mark bonds attractive, for reasons of high yield. Older issues which had fallen quite sharply before Easter are worth buying because of the discounts at which they stand.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. Life years	Coupon %	Price	Lead manager	Offer yield %
U.S. DOLLARS							
‡††Caisse Nationale des Telecommunications	125	1990	10	11⅞	99½	Lazard Freres & Co.	11.479
‡†Midland Intl. Fin. NV	150	1992	12	5¼◊	100	S. Montagu, EBC, CSFB	5.319◊
‡Anheuser-Busch Intl. Fin. NV	100	1990	10	11½	99½	Dillon Read	11.336
†Banco Centrale de Costa Rica	50	1985	5	6¼◊	100	EBC, BNP	6.406◊
†National Bk of Hungary	50	1985	5	—	100	Amex Bank, KIIC	—
Roylease (g'teed by Royal Bk of Canada)	50	1985	5	11¼	100	Royal Bank of Canada	11.250
D-MARKS							
‡Akzo	125	1990	8	9	99	Deutsche Bank	9.157
‡**Arbed Finance	50	1987	7	9	99½	WestLB	9.150
**Hazama Gumi (g'teed Dai-Ichi Kangyo Bk)	40	1985	5	9	100	Bayerische Vereinsbank	9.000
SWISS FRANCS							
‡**ESCOM (g'teed Rep. South Africa)	100	1984	—	6¾	100	SBC	6.750
‡**NYK Lines (g'teed Mitsubishi Bank)	30	1985	—	6⅜	100	Credit Suisse	6.375
RENFE (g'teed Spain)	80	1990	—	6½	100½	SBC	6.431
STERLING							
‡†Scandinavian Bank	20	1990	10	9½◊	100	Morgan Grenfell	9.963◊
AUSTRIAN SCHILLINGS							
§§Oesterreichische Kontrbk. (g'd Austria)	500	1985	5	9⅜	100	Orion S.G. Warburg	9.375

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. ◊ Minimum. § Convertible. †† Registered with U.S. Securities and Exchange Commission. ¶ Purchase Fund. §§ Transaction Currency U.S. dollars. Note: Yields are calculated on AIBD basis.

CREDITS

BY PETER MONTAGNON

Sweden seeks $850m

SWEDEN is seeking an $850m, eight-year Eurocredit. Bankers in Stockholm say that the National Debt Office has invited nine banks under the co-ordination of Chase Manhattan to make an offer on this basis, though no mandate has as yet been awarded.

The bankers say it is thus too early to comment on the likely terms for the credit, but bankers in London are watching closely to see whether Sweden can continue to command the split ⅜-½ spread it obtained on its $800m credit late last year.

In the country's favour are both the shortage of "quality borrowers" in the syndicated loan market and the precedent already established this year by Belgium for prime European borrowers to rate a ⅜-½ per cent spread over seven years.

Some bankers, however, feel that the pricing of the loan would have to take into account both the effects of the recent industrial unrest in Sweden and the country's large borrowing requirement this year. This is put at some $7bn, which means that Sweden is placing much heavier demands on the capital markets than Belgium.

Whatever the outcome, the news will breathe some welcome new life into the market, which, in the opinion of many bankers, has remained sluggish despite the very sharp falls in interest rates over the past two weeks.

Many borrowers shied away from the market as Eurodollar rates rose up to 20 per cent earlier this year. Now it seems they need some time to be convinced by their fall. When they finally are, a flood of new credits could hit the market, many bankers believe.

Another large credit which is slowly taking shape is that for Venezuela, which has informally indicated to the 19 banks involved that it will accept the seven-year alternative with its split spread of ⅝-¾. This means the amount would be only $1.2bn and not the $1.8bn offered under the eight-year choice with a margin of ¾ per cent throughout.

Terms have also been set for the $300m Kingdom of Morocco credit being managed by UBAF. It carries a spread of 1 per cent for the first five years, rising to 1⅛ for the remaining three with four years grace. This marks a fairly significant hardening of terms for Morocco compared with last year, when the Office Cherifien des Phosphates was able to raise $200m over 10 years at a split spread of ⅞-1 per cent.

Aerolineas Argentinas is raising a $70m, 10-year credit through Banco de la Nacion Argentina, Deutsche Bank and Morgan Guaranty. Terms provide for a spread of ⅝ per cent for three years, rising to ¾ per cent thereafter with five years grace. They thus underline the high standing of Argentina among Latin American borrowers, especially since this is a 10-year deal rather than eight years for similar spreads which has been the pattern on recent Argentinian operations.

The events in South Korea over the past week have provided some anxious moments for international bankers. The current series of $50m credits for five of the country's commercial banks appears to be going ahead as planned for the time being, but there is a growing feeling in the market that the $600m credit planned for the Korea Development Bank for later this year may have to be postponed.

In Yugoslavia, Jugobanka is seeking a $50m one-year credit through Shearson Loeb Rhoades at a spread of ½ per cent. Discussions on credits for other Yugoslav borrowers have been difficult and protracted, with the market still put off by lending limit problems and the poor shape of the Yugoslav economy.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Alcoa of Australia 10 88	60	92¾	93¼	+1⅛	+1⅛	11.27
Australian Res. 9⅞ 84	30	95½	96	+1⅛	+1⅛	10.92
Beneficial Fin. 9¾ 87...	100	90⅞	91⅜	+0⅛	+1⅛	11.63
CECA Grad. Rate 12 86	100	95½	97½	+0⅛	+1	12.86
CECA 11⅜ 90	50	97¾	98⅜	0	+0⅛	12.00
Canadian Pacific 9⅝ 88	50	87⅜	87⅞	+0⅛	+0⅛	11.28
Carter Hawley 9⅝ 88 ...	50	90⅞	91⅜	0	+1⅛	11.86
Continental Grp. 9⅝ 88	100	91¼	92¼	+0½	+1⅛	11.51
Dome Petroleum 10 94	50	83½	84	+0⅛	+0⅛	12.49
Dome Petroleum 13½ 92	50	101	101½	+0⅛	+1⅛	13.28
Dominion Bridge 10⅛ 84	30	94⅜	94⅞	−0⅛	+1⅛	12.07
EIB 11⅜ 92	80	99⅜	86	+0⅜	+1⅛	11.95
EIB 13⅜ 90	100	107⅜	107⅞	+0⅜	+1⅛	12.38
Eksportfinans 11⅛ 87 ...	60	98⅞	99⅜	+0⅜	+1⅜	11.41
Export Dv. Cpn. 9⅜ 84	150	95⅜	96¼	+0⅛	+1⅛	10.94
Export Dv. Cpn. 12⅜ 87	100	105½	106	+1	+1⅛	11.50
Federal Dev. Bk. 12⅜ 85	75	102⅜	102⅞	+0⅛	+1⅛	11.52
Finland 9⅞ 88	100	†88	88½	+0½	−0⅛	12.10
George Weston 13½ 87	30	†99½	100	+0¼	+1⅛	13.65
GTE Finance 9¾ 89	65	87⅜	88⅜	+1½	+1⅛	12.00
GMAC 9¾ 86	100	91¼	92¼	+0⅛	+1⅛	11.13
GMAC O/S Fin. 11 84	100	99⅜	99⅞	+0⅛	+1⅛	11.10
GMAC O/S Fin. 13⅜ 85	100	105⅜	105⅞	+0⅛	+0⅞	11.79
Kennecott Int. 9½ 88...	100	85⅜	85⅞	−0⅛	+1	13.15
McGraw 13⅛ 86	75	98⅛	99⅜	+0⅛	+1	13.74
Michelin 10 84	125	87¾	88¼	+0½	+0⅛	11.76
Nat. Dev. Telecm. 9½ 86	100	93	93½	+0⅛	+1	11.08
New Brunswick 9⅜ 84	75	87	87½	+1⅛	+1⅛	11.64
Newfoundland 10 94 ...	50	89½	90	+0⅛	−0⅛	11.50
Norway 9½ 84	150	95⅜	96⅜	+0½	+1⅛	10.79
Nova Scotia Pwr. 9⅜ 89	90	90	90½	+0⅛	+0⅛	11.56
Pennwalt O/S F 9⅜ 84	25	[illegible]	[illegible]	+0⅛	+1⅛	11.83
Pepsico Cap. 9⅛ 84 ...	100	96	96½	+0½	+1⅛	10.48
Orebro Hydro 10 99 ...	75	83⅜	[illegible]			
Sears Roebuck 8 82 ...	150	97½	98	+0⅛	+1⅛	10.43
SNCF 12⅜ 85	50	103⅞	104	+0½	+0⅞	[illegible]
Statoil 9⅜ 86	100	90⅝	91⅛	+0⅛	+0⅞	11.25
Swed. Ex. Cred. 12½ 85	40	102⅜	102¾	+0⅞	+1⅛	11.79
Sweden 9⅜ 89	100	90⅞	91⅜	+0⅛	+1⅞	11.78
Sweden 9⅜ 84	100	95⅞	96⅜	+0⅛	+1⅛	10.91
Unilever NV 9⅜ 87	100	90⅝	91⅛	+0⅛	+0⅛	[illegible]
Warner-Lambert 8 84 ...	100	94⅜	94⅞	+0½	+1⅛	10.87

Average price changes... On day +0⅛ on week +1⅛

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bank 10 90	200	108½	109⅛	+0⅛	+0⅞	9.63
Australia 8⅜ 90	250	99⅞	100⅜	+0⅛	+0⅛	8.06
BFCE 7⅜ 87	100	98½	99½	+0½	+1⅛	7.94
BFCE 8⅜ 95	100	97¾	98¼	+1⅛	+1⅛	8.33
Brazil 8 87	190	92⅜	92⅞	+1	+1	8.47
CECA 7 91	190	87⅜	92¼	0	−0⅛	8.17
Council of Eur. 7⅜ 89	100	93⅜	94⅜	+0¼	+0⅛	8.26
Denmark 7⅞ 88	100	96⅜	97¼	0	+0⅛	8.58
Denmark 8⅜ 92	100	97⅜	98⅜	+0⅛	−0⅛	8.60
EEC 7⅛ 84	225	96	96⅜	+0⅛	−0⅛	8.31
EIB 7½ 89	200	94½	95¼	+0½	+0⅛	8.33
Finland Rep. of 8 89 ...	150	97	89	+0⅛	+0⅛	8.90
Kobe, City of 7⅜ 89 ...	150	94⅜	95	+0⅛	+1⅛	7.95
Neder. Gasunie 8 86 ...	100	99⅞	100⅜	0	+0⅛	7.83
New Zealand 7¾ 87 ...	200	95⅜	96	+0⅛	−0⅛	7.93
Norway 7½ 85	250	98⅜	99⅜	+0⅛	+0⅛	7.78
OKB 7⅜ 89	100	93⅞	94⅜	+0⅛	+1⅞	8.27
Oslo, City of 8⅜ 90 ...	80	100⅞	101⅜	+0⅛	+0⅛	8.55
Sweden 9⅜ 87	200	105⅜	105⅞	+0⅛	+0⅛	8.56
World Bank 7⅜ 91	400	95⅛	95⅞	+0½	+0½	8.38
World Bank 7⅜ 90	250	96⅜	97⅜	+0½	+0⅛	8.73
World Bank 10 88	150	108	108⅜	+0⅛	+0⅞	0.10
World Bank 10 90	200	109	109⅜	+0⅛	+0⅛	8.56

Average price changes... On day +0⅛ on week +0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Argentina 5⅜ 89	80	91	87⅜	+0⅛	−4⅛	6.82
Aumar 5 89	60	93	93½	0	−0⅛	5.98
Australia 3⅜ 89	250	90⅜	90⅜	+0¼	+0⅞	4.98
Bergen, City of 4⅜ 91...	40	†91	91⅜	+0½	−0⅛	5.84
BNOE 5 89	75	†86⅜	87	+0⅛	−0⅛	6.98
BMW Overseas 4⅜ 91...	100	91	91½	−0⅛	+0½	5.29
Buhrm'n-Tetterode 7 90	40	104⅜	104⅜	+0⅛	+0⅛	0.37
Caisse Nat. Tele. 4⅜ 89	100	92⅜	92⅞	+0⅛	+0⅛	5.41
CCCE 5⅜ 90	100	101	101⅜	+0½	+0⅛	5.58
Copenhagen 4½ 91	60	87⅜	88⅛	+0½	+0⅛	5.89
Council of Eur. 6 86...	100	93⅜	94⅛	+0⅛	0	5.84
EIB 4½ 91	100	91	91½	−0½	+0½	5.58
EIB 4⅜ 94	100	†86	86½	0	+0⅛	5.82
Elec. de France 4⅜ 88...	100	92⅜	93⅜	+0⅛	−0⅛	5.36
GZB 4¾ 89	100	88⅜	89⅛	+0⅛	−0⅛	5.79
Hihi 4½ 91	35	†93	93½	−0⅛	+0⅛	5.04
Int.-Amer. Dev. 4½ 89	100	88⅜	89⅞	+0⅛	+0⅛	5.98
Int.-Amer. Dev. 7 90 ...	80	105⅜	105⅞	0	+0⅛	5.28
Jutland Tele. 5½ 90......	90	100⅜	100⅜	−0⅛	−0⅛	5.43
Malaysia 5 88	80	87½	88	−0⅛	−0½	6.90
Nippon Tel. & T. 4⅜ 89	100	92⅛	92⅜	+0⅛	0	5.28
Nordic Bank 5 89	45	97⅛	97⅞	+0⅛	+1⅛	5.35
Norges Komm. 4⅜ 91...	100	90½	91	+1½	+2⅛	5.49
OKB 4⅛ 91	100	[illegible]	[illegible]	[illegible]	+0⅞	5.65
OKO 6 90	100	103	103¼	0	−0⅛	5.58
Oslo, City of 4⅜ 91 ...	100	87	87¼	+0⅞	0	5.94
Shikoku El. Pwr. 4⅜ 89	100	93⅜	94½	+0⅛	+0⅛	[illegible]
Stavang 4⅜ 91	60	†92½	93	−0⅛	−1⅛	5.84
Voest-Alpine 4⅜ 89......	90	93½	94	+0⅛	+0½	5.65
World Bank 4⅜ 88	100	92⅜	93	0	−0⅛	5.63
World Bank 4⅜ 89	150	91⅛	92	+0⅞	0	5.53
World Bank 4⅜ 91	100	†91½	92	0	−0⅛	5.82

Average price changes... On day +0⅛ on week 0

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Australia 5.8 83	30	90¾	91¾	+0½	+0⅛	8.70
Australia 6½ 88	20	85	86	0	−0½	9.17
EIB 7⅜ 89	12	91½	93	−0⅛	−0⅛	9.01
Finland 5.8 83	10	90⅜	91⅜	0	+0⅛	8.84
Finland 6.8 88	10	95	96	0	−1	9.50

Average price changes... On day 0 on week −0½

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Bell Canada 10¼ 86 C$	50	84	94½	+0⅛	+0⅞	12.06
CIBC 13½ 85 C$	50	103½	103⅝	+0⅜	+0⅛	12.54
Cr. Foncier 10⅜ 84 C$	30	90¼	91	+0⅛	+0⅛	13.33
Fst. Can. Inv. 10 84 C$	50	93¼	93¾	+0⅛	+0⅛	12.15
Hudson Bay 10⅛ 89 C$	60	90	90½	0	−0⅛	12.36
Quebec 10⅛ 86 C$	60	91	93	0	0	12.22
R. Bk. Canada 10 86 C$	40	81⅞	92⅜	+0⅛	+1⅛	11.91
R. Bk. Canada 10 94 C$	40	88	88½	+0⅛	−0⅛	11.75
Tordom Cpn. 13½ 85 C$	30	103⅛	103⅜	+0½	+0½	12.54
M. Bk. Dnmk. 9 91 EUA	25	94⅜	95⅞	0	+0⅛	9.69
SOFTE 8⅜ 86 EUA	40	85⅜	86⅛	0	+2⅛	10.79
U. Bk. Nrwy. 9½ 90 EUA	18	97¼	98¼	0	+0⅛	8.86
Algemene Bk. 8⅜ 84 Fl	75	97½	98	0	−0⅛	8.88
Ned. Gasunie 8⅜ 84 Fl	50	98⅜	99¼	0	−0⅛	8.04
Ned. Middbk. 8⅜ 84 Fl	75	95⅜	96⅛	0	−0⅛	9.52
Norway 9⅜ 84 Fl	100	96⅜	97⅛	0	−0⅛	8.20
Norway 8⅜ 84 Fl	100	97¼	97⅜	0	+0⅛	8.94
Philips Lamps 8⅜ 84 Fl	75	96½	97	+0⅛	+2	8.31
Air France 11 84 FFr ...	120	96	96½	0	+1	12.13
CECA 14⅛ 86 FFr	150	103⅞	104⅛	0	+0⅛	13.14
Euratom 9⅜ 87 FFr	150	84⅜	85	+0⅛	+0⅛	13.24
Finland 11 84 FFr	80	94⅜	94⅞	+0⅛	−0⅛	12.68
Finland 11⅜ 89 FFr	70	91⅞	92⅜	+0⅛	+0⅞	12.94
Gaz de France 11 94 FFr	150	95⅜	96⅜	+0¼	+1⅛	12.17
IBM France 11⅛ 94 FFr	120	96⅞	97⅜	+0⅛	+0⅞	12.65
Renault 9⅜ 89 FFr	100	84⅞	85⅜	0	0	13.95
Saint-Gobain 9⅜ 88 FFr	130	84⅜	85⅞	+0⅛	+0¼	13.64
Solvay et Cie 9⅜ 87 FFr	125	82	83	+0¼	+0⅛	13.83
Citicorp. O/S 13½ 90 £	50	97⅞	98⅜	+0⅛	+0⅞	13.90
EIB 11⅜ 91 £	25	88⅜	88⅞	+0⅛	+0⅛	13.56
Finance for Ind. 13 81 £	15	87	97¼	0	+1⅛	13.45
Fin. for Ind. 12½ 88 £...	30	95	95½	+0⅛	+0⅞	13.39
Fin. for Ind. 14½ 88 £...	20	101	101⅛	+0⅛	0	14.18
Gen. Elec. Co. 12½ 88 £	50	96⅜	97⅜	+0½	+1⅞	13.07
Swed. Ex. Cr. 15⅜ 95 £	20	102⅜	103⅛	+0⅛	−0⅛	14.40
Indonesia 8⅜ 91 KD ...	7	†93	93½	0	0	8.76
Mitsubishi 7½ 84 KD ...	10	†91½	92	0	−0⅛	10.03
Norges Kom. 7½ 89 KD	12	†93⅜	93⅞	0	0	8.54
Occidental 8⅜ 91 KD ...	7	†90⅜	90⅜	0	0	8.89
Akzo 8⅜ 87 LuxFr	500	92⅜	93⅜	0	−0⅛	10.66
Euratom 8 87 LuxFr	500	87⅜	88⅜	0	+1⅛	10.51
Euratom 9⅜ 86 LuxFr ...	500	98⅜	99⅛	0	−0⅛	10.00
EIB 9⅜ 88 LuxFr	600	98	99	0	+0½	10.02
Volvo 9⅜ 87 LuxFr	500	97⅜	98⅜	0	+0½	10.09

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
Allied Irish Bk. 5⅜ 87...	0⅜	97⅜	98⅛	2/7	15⅞	15.45
Banco di Roma Int. 5 87	0⅛	99⅜	100⅛	28/10	15.31	15.31
Bank of Ireland 5⅜ 89...	‡0⅛	97⅜	98⅜	21/8	11.81	12.07
Bank of Tokyo 5⅜ 89 ...	‡0⅛	97⅞	98⅜	25/10	15.56	16.28
Barclays O/S Inv. 5 90	0⅛	89	98½	13/8	14⅛	14.50
Bergen Bk. A/S 6 89 ...	‡0⅛	96⅜	97⅛	29/5	17⅞	17.81
Bqua. Indo Suez 5⅜ 88	0⅛	98⅜	99⅜	11/7	14.69	14.84
Citicorp O/S F. 6 84 ...	‡0⅛	98⅞	99⅜	8/5	18.81	18.89
Citicorp O/S F. 83	§‡0	98⅞	98⅜	23/5	16.06	16.20
Citicorp O/S F. 84	‡0	89	98½	30/6	16.94	17.07
C. Itoh 5⅜ 87	0⅛	101	101⅛	18/9	19.44	19.20
Co-operative Bk. 5 86...	0⅛	97⅜	97⅞	15/11	11.44	11.72
Creditanstalt 5½ 81	§‡0⅛	98⅜	99⅛	14/6	18.44	18.62
CNT 5⅜ 89	§0⅛	101½	102	18/10	18⅛	17.81
GZB 5½ 89	‡0⅛	98⅜	99¼	1/8	16⅛	15.40
Jugobanka 0 89	0⅞	90⅜	91⅜	23/11	11⅛	12.91
Ind. Bank Japan 5⅜ 87	0⅛	101⅛	101⅜	15/10	18⅜	18.60
LTCB Japan 5⅜ 86	0⅛	98	99½	13/6	14⅛	14.50
LTCB Japan 5½ 89	0⅛	97⅜	97⅞	7/6	14.18	14.53
Mfrs. Han. O/S 5⅜ 94...	‡0⅛	98⅜	98⅞	30/5	17½	17.36
Midland Intl. Fin. 5 89	0⅛	99½	100	20/6	15	15.04
Nacional Fin. 5⅜ 86 ...	0⅛	98⅜	98⅜	25/7	14.69	14.91
Nat. West. 5⅜ 84	§0⅛	101⅞	102⅜	11/10	18⅜	18.24
Nippon Credit 6½ 86 ...	0⅛	97½	98⅛	12/7	14.44	14.75
Nippon Credit 5⅜ 87 ...	‡0⅛	97⅜	98⅛	5/8	14⅛	14.69
Royal Bk. Scot. 5⅜ 94...	§‡0⅛	99⅜	99⅜	11/7	19½	19.60
Soc. C. de Bqua. 6½ 87	0⅛	101½	102⅛	3/10	20.06	19.67
Sogenal 5⅜ 89	§0⅛	98⅜	98⅜	13/7	14.44	14.66
Standard Chart. 5⅜ 90...	0⅛	100⅜	101⅛	6/9	17⅛	17.10
Sweden 5⅜ 91	‡0⅛	†97⅜	98⅛	18/15	18⅜	19.01
TVO Pwr. 5 91 (D-lock)	0⅛	98⅞	[illegible]	24/11	10⅛	11.05
Williams & Glyn 5⅜ 91	0⅛	101	101½	14/6	18½	18.27
Bq. E. d'Alg. 4⅜ 89 SF	0⅛	[illegible]	[illegible]	18/6	6.89	7.27

Average price changes... On day +0½ on week +0⅛

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
AGA Akt'bolag 7⅜ 88...	10/79	145	†114	115	+0½	−6.91
Ajinomoto 7⅛ 95	2/80	815	102⅛	102⅜	+2⅛	0.27
Alco Int. Fin. 9½ 94 ...	1/80	40	†91	92½	+0½	32.63
Asahi Optical 7 94	11/79	806	†98	98½	+0⅛	13.41
Canon 6⅜ 94	8/79	570	106⅜	107⅛	+0½	−1.03
Credit Suisse 4⅜ 93 ...	10/79	1325	101⅜	103½	+0⅛	4.26
Daiei Inc. 6½ 94	11/79	1020	95⅞	98⅜	+0⅛	33.77
DOKK 11 90	4/80	324	†114	115	+1⅛	8.05
Dynalectron 9½ 95	8/80	[illegible]	[illegible]	108	+2⅛	−1.09
Ensarch Fin. 9⅜ 94	7/80	30.26	†104	104½	+1½	11.86
LPC Internatnl. 5 88 ...	9/79	[illegible]	[illegible]	98½	+0⅛	31.87
Maidensha Elec. 7 94...	12/79	210	†96⅛	96⅜	−0⅛	12.54
Mitsubishi Cp. 6½ 84...	10/79	604	125½	127	+0⅜	9.41
Nippon Seiko 7⅛ 94 ...	12/79	339	†108½	109	+0½	1.25
Nitto Elec. Ind. 5 94....	7/79	735	†79½	80	+0⅛	2.62
Toshiba Cpn. 7⅜ 94 ...	10/79	198	96⅜	98⅛	+0⅛	−1.88
Union Bk. Switz. 5 89...	2/80	125	84½	86⅞	+1⅛	3.35
Fujitsu 5 84 DM	7/79	476	101⅛	102⅛	+0⅛	10.91
Kansai Elec. 4 84 DM...	4/79	1234	86⅜	87⅜	+0⅛	47.96
Tokyu Ld. Co. 4 86 DM	4/79	493	78⅜	79⅜	0	39.87
Uny Co. 6½ 89 DM	11/78	1071	93⅜	94⅛	−0⅛	42.63

BONDTRADE INDEX AND YIELD

	Medium term		Long term	
May 23 ...	91.56	10.36	81.05	11.17
May 16 ...	91.06	10.60	80.40	11.27
High '80 ...	91.56	(23/5)	89.18	(2/1)
Low '80 ...	86.32	(2/4)	71.54	(29/2)

EUROBOND TURNOVER (nominal value in $m)

	Cedel	Euroclear
U.S.$ bonds		
Last week	1,117.8	4,103.2
Previous week ...	1,111.1	3,802.7
Other bonds		
Last week	299.3	404.1
Previous week ...	196.1	385.1

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=The current coupon. C.yld=The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Arab Company for Trading Securities SAK; Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bankers Trust International; Bondtrade; Credit Commercial de France (Secs.) London; Citicorp International Bank; Daiwa Europe NV; Deltec Trading Company; Dillon, Read, Overseas Corporation; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nesbitt Thomson; Salomon Brothers International; Samuel Montagu and Co.; Scandinavian Bank; Strauss Turnbull and Co.; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on May 23

WORLD STOCK MARKETS

Tokyo prices rise quietly

STOCK PRICES closed slightly higher in quiet trading, with the Nikkei Dow Index rising 3.88 points to close at 6,831.92.

Trading volume was small at 230m shares, up from 170m shares in a half-day session on Saturday but down from Friday's 280m.

Prices were firm under the lead of speculative issues like Miyaji Iron Works and Kyosan Electric Manufacturing, briefly pushing up the Dow Index more than 20 points. The prices shed some gains in the afternoon, however, because investors stayed away from the market or sold their stocks to take profit. There were no strong buying incentives behind the market.

Miyaji, Kyosan and Ishi Iron Works were bought actively from small-sized securities houses, which were reported to be receiving considerable funds for speculative investment from concerns raising money for the general elections on June 22.

Despite the yen's sharp rise on the Tokyo foreign exchange market, most Blue Chips, Steels, Heavy Electricals, Light Electricals and Precision Machineries were almost unchanged, partly because U.S. and European financial markets were closed. The dollar finished at Y218.325, down from a Y222.25 finish on Friday.

Canada

The market continued broadly higher in active trading. The Composite Index climbed 17.5 points to 1,878.6 and 13 of 14 sub-indices advanced. Gains outnumbered losses by more than three to one.

The Metals and Minerals Index advanced 20.7 to 1,876.0, and Oil and Gas 18.9 to 4,246.2, while Golds eased 18.0 to 2,995.3.

Massey - Ferguson, which reported higher second quarter earnings, rose ⅛ to C$9⅛.

Oils were mixed as Shell Canada rose ⅛ to C$32⅞ and Gulf Canada ⅛ to C$28⅞, while Dome Petroleum at C$74 and Texaco Canada at C$80½ each slipped ½.

Real Estate issues were higher, with Bramalea rising ⅜ to C$21½, Daon Development ⅛ to C$7½ and Nu-West "A" ⅛ to C$17⅞.

Volume eased to 2,395,445 shares from 3,258,391 at noon on Friday.

Markets closed

Among markets which remained closed yesterday, were Wall Street, London, Austria, Brussels, Denmark, Paris, Greece, Luxembourg, Amsterdam, Norway, Sweden, Switzerland and West Germany.

Australia

Strong buying pushed stocks upward in a day of active trading described by dealers as their best in four months.

The Industrials surged ahead, with BHP gaining 25 cents to close at A$13.75. Coal and Allied climbed 55 cents to A$11.10 and CSR rose 52 cents to close at A$6.52.

Although energy-related stocks showed the best advances, the buying was so widespread that dealers believed the market was experiencing a general upward move.

Those which showed significant gains in the Mining sector included Utah, which added 30 cents to close at A$4.90, WMC, up 8 cents to A$4.50, CRA up 20 cents to A$5.50, Peko 30 cents higher at A$7.10, Comalco 8 cents up to A$5.74, Ashton 10 cents up at A$2.55 and MIM 20 cents higher at A$4.40.

The All Ordinaries Index rose 14.9 points on the day.

Hong Kong

Prices closed mixed in increased trading. The Hang Seng Index gained 1.31 points to close at 898.38.

Prices opened sharply higher and generally held steady in the morning session, but eased in the afternoon in the face of profit-taking.

Gainers included Hong Kong Bank, up 20 cents to HK$14.30, Wheelock A, 8 cents to HK$4.40 and Hong Kong Electric, 5 cents to HK$5.85.

Losers included Hong Kong Land, down 10 cents to HK$11.30 and Hong Kong and Kowloon Wharf, down HK$1.50 to HK$69.50.

Milan

Prices rose moderately on selective demand in lack-lustre trading, with the stock market index up 0.60 per cent at the close. Market sentiment was hesitant, with only shares of low capitalisation changing hands.

Good support was noted for minor shares such as SAI, Unicem, Burgo and BII common, all of which firmed on expectations of good company results.

Major Industrial and Financial shares ended mixed after being mostly neglected during the day. Fiat gained L5 to L1,765, Montedison retreated L0.25 to L162.75, and Olivetti L16 to L1,952. Both Pirellis gained slightly.

Activity in most other sectors was minimal.

Singapore

Share prices gained broadly on good turnover in Singapore. The Straits Times Industrial Index closed at its third straight post-1973 high, jumping to 517.56 from 508.02.

Much of the index's strength came on smart rises by Blue Chips. Straits Trading rose to 13.40 from 12.90 ex-dividend. United Motor Works firmed to 1.97 from 1.84 ex-dividend.

TEL AVIV

Company	Prices May25 1980	Change on the week
Banking, Insurance and Finance		
Bank Leumi-le Israel...	812	+ 6.6
IDB Bankholding	—	
Bank Hapoalim Br.	1,057	+ 54.0
Union Bk. of Israel Br.	706	+ 44.0
United Mizrahi Bank...	473	+ 32.0
Hassneh Insurance Br.	520	+ 12.0
General Mort. Bank Br.	500	—
"Tefahot" Isrl. Bt. Bk.	558	+ 3.0
Land Development		
Africa Israel Inv. I£16	825	+ 55.6
Israel Land Devpt. Br.	315	+ 7.0
Property and Building...	405	+ 21.0
Public Utility		
Israel Electric Cpn. ...	540	—
Investment Companies		
"Clal" Israel Inv.	722	— 6.0
Bank Leumi Invest. ...	439	—
Discount Invest.	368	+ 11.0
Commercial and Industrial		
Alliance Tire & Rubber	2,140†	+291.0
Elco Br.	299	+ 55.6
Argaman Textile Br. ...	272	+ 23.0
"Ata" Textile "B"...	188.5	+ 4.0
Amer. Israeli Ppr. Mills	810	+ 17.6
Assis	410	+ 30.0
Teva Reg.	798	+ 58.0
Fuel and Oil		
Delek	317	+ 3.0

Source: Bank Leumi le Israel, BM, Tel Aviv. † Buy.

MONEY RATES

NEW YORK	
Prime Rate	[illegible]
Fed. Funds	[illegible]
Treasury Bills (13-week)	7.58
Treasury Bills (26-week)	7.57
GERMANY	
Discount Rate	7.5
Overnight Rate	9.50
One month	10.075
Three months	10.25
Six months	9.95
FRANCE	
Discount Rate	9.5
Overnight Rate	12.50
One month	12.625
Three months	12.6875
Six months	12.625
JAPAN	
Discount Rate	9.0
Call (Unconditional)	12.625
Bills Discount (three-month)	13.875

SPAIN

May 23	Price %	+ or —
Banco Bilbao	208	
Banco Central	227	+3
Banco Exterior	210	+2
Banco Hispano	206	
Banco Ind. Cat.	122	
Banco Madrid	141	—

NEW YORK

Indices

NEW YORK ACTIVE STOCKS

CANADA

BELGIUM (continued)

HOLLAND

AUSTRALIA

JAPAN (continued)

DENMARK

FRANCE

GERMANY

ITALY

NORWAY

SWEDEN

SWITZERLAND

AUSTRIA

BELGIUM/LUXEMBOURG

HONG KONG

SINGAPORE

SOUTH AFRICA

BRAZIL

COMPANY NOTICES

NESTLÉ S.A., CHAM AND VEVEY, SWITZERLAND

PAYMENT OF DIVIDEND COUPONS

Notice is given to shareholders that following a resolution passed at the General Meeting of shareholders held on 22nd May 1980 a dividand for the year 1979 will be paid to them as from 27th May 1980, as follows:

per share	SFr. 75.—
less Swiss federal withholding tax of 35%	SFr. 26.25
or net	SFr. 48.75

against delivery of coupon No. 23.

This amount is payable in Swiss Francs. Paying Agents outsida Switzarland will pay in the currency of tha Country in which the coupons are presented, at the rate of exchange on the day of presentation.

Coupon No. 23 may ba presented as from 27th May 1980, to the following Paying Agants of the Company:

In Switzerland:

Swiss Credit Bank, Zurich, and its branches,
Swiss Bank Corporation, Basle, and its branches,
Union Bank of Switzarland, Zerich, and its branches,
Swiss Volksbank, Bern, and its branches,
Banque Cantonale Vaudoise, Lausanne, and its branches and agencies,
Zürchar Kantonalbank, Zurich, and its branches,
Bernar Kantonalbank, Bern, and its branches,
Zuger Kantonalbank, Zug, and its branches,
Banque de l'Etat de Fribourg, Fribourg, and its agencies,
Darier & Cia, Geneva,
Lombard, Odier & Cie, Geneva,
Pictet & Cie, Gsneva,
Handalsbank N.W., Zurich, and its branch,
Bank Leu Ltd., Zurich, and its branches,

In England:

Swiss Bank Corporation, London,
Swiss Credit Bank, London,
Union Bank of Switzerland, London,

In the United States of America:

Morgan Guaranty Trust Company of New York, New York,
Swiss Credit Bank, New York,
Swiss Bank Corporatign, New York,

In France:

Crédit Commarcial de France, Poris,
Banque de Paris at des Pays-Bas, Paris,

In Garmany:

Dresdney Bank AG, Frankfurt/Main and Düssaldorf,

In Holland:

Pierson, Heldring & Plerson, Amsterdam,

In Austria:

Girozentrale und Bank der österreichischen Sparkassan AG, Vienna,

Cham and Vevey,
22nd May 1980 — The Board of Directors

UNILAC, INC.

PANAMA

PAYMENT OF A DIVIDEND

Notice is given to shareholders that following a resolution passed by the Board of Directors on 6th May 1980

a dividend for the year 1979 of $7.—

par common share will be paid to them as from 27th Moy, 1980, upon delivery of coupon No. 23 and this in accordance with tha provisions of the Articles of Incorporation.

This dividend is payable in U.S. dollars. Paying Agents outside tha United States will pay in tha currency of the country in which tho coupons are presented, at the rate of exchange on the day of presentation.

Coupon No. 23 may be presanted as from 27th May 1980, to the Paying Agents indicated in the notice of Nestlé S.A. bearing the same date. In accordance with the Articles of Incorporation of tha Company, it should be presented for payment at the same time as dividend coupon No. 23 of Nestlé S.A. bearing the same number as the corresponding Unilac, Inc. share.

Panama City
22nd May 1980 — The Board of Directors

THE BRAZIL FUND S.A.-SOCIEDADE DE INVESTIMENTO D.L. 1401

November 1975 and July 1977 Issue Bearer Depositary Receipts "BDRs" issued by European Overseas Issuing Corporation S.A.

DIVIDEND COUPON NO. 9

Coupon No. 9 will be payable from May 27 1980 onwards at one of the undermentioned offices at the rate of US$114.706 per 1,000 Depositary Shares and US$1,147.06 per 10,000 Depositary Shares less any additional withholding tax that may be deductible:
—The Chase Manhattan Bank N.A., Woolgate House, Coleman Street, London EC2P 2HD.
—European Overseas Issuing Corporation, 11, Boulevard Grande Duchesse Charlotte, Luxembourg.

This amount represents the dividend of Cr$0.57 per share less Brazilian withholding tax of 15 per cent and the Depositary's commission of 1 per cent.
27th May, 1980.

London Borough of HOUNSLOW Variable Rate Stock 1982

For the six months from 25th May, 1980 to 25th November, 1980 the interest rate on tha above stock will be 17.1250% per annum

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Registrars

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NOTICE IS HEREBY GIVEN that the 128th Annual General Meeting of the Members of the Society will be held at MGM House, Heene Road, Worthing, West Sussex, on Wednesday, 25th June 1980 at 12.30 p.m. for the following purposes:

1. To receive the Report of the Directors and the Accounts for the year ended 31st December 1979.
2. To elect Directors.
3. To re-appoint the Society's Auditors and to authorise the Directors to fix their remuneration.
4. To increase Directors' fees.
5. To transact any other ordinary business of an Annual General Meeting.

Each Member may attend and vote in person or by proxy at meetings of the Society. A proxy need not be a Member of the Society.

By Order of the Directors,
C. W. FORD, Secretary.

MGM House,
Heene Road,
Worthing,
West Sussex,
BN11 2DY.
21st May 1980.

CECA 8¾% 1975-1982 LOAN OF $US50,000,000

NOTICE to the holders of bonds of the issue 8.75% 1975-82 of US$50,000,000. Made by the European Coal and Steel Community.

The commission of the European communities announces that the annual instalment of bonds amounting to $US2,000,000 has been purchased for redemption on July 1, 1980.

Principal amount unamortized after July 1, 1980: $US40,000,000.

Not yet presented drawn bonds: Reimbursement 1/7/78: Nos. 8781 to 8783, 8855 to 8868.

McCARTHY GROUP LIMITED (Incorporated in the Republic of South Africa)

NOTICE TO SHAREHOLDERS PREFERENCE DIVIDEND NO. 65

NOTICE IS HEREBY GIVEN that the sixty-fifth half-yearly preference dividend at the rate of 5.5 (five point five) cents per share has been declared by the directors and is payable to holders of preference shares registered in the books of the company at the close of business on 27 June 1980.

The dividend is declared in the currency of the Republic of South Africa.

For the purpose of establishing the shareholders entitled to participate in this dividend, the preference transfer register of the company will be closed from 28 June to 5 July 1980, both days inclusive.

Dividend warrants will be posted to shareholders on or about 29 July 1980.

In terms of the Republic of South Africa Income Tax Act 1962, as amended, the non-resident shareholders' tax of 15% will be deducted by the company from dividends payable to shareholders whose addresses in the register are outside the Republic of South Africa.

By Order of the Board,
B. J. CLOUSTON, F.C.I.S., Secretary.

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New managing director for Sirdar

Mr. F. G. Lumb, a director of SIRDAR, has been appointed managing director. Mrs. Jean M. Tyrrell continues as the group chairman.

*

Mr. W. E. Bell, regional co-ordinator—Middle East, has been appointed a director of SHELL INTERNATIONAL PETROLEUM COMPANY from June 1.

*

Mr. David Ritchings bas been appointed a director of JOSEPH HADLEY (INSURANCE) and chief executive of the newly formed subsidiary JOSEPH HADLEY (EXCESS AND SURPLUS LINES), responsible for development of this class of North American business. Both of these companies are members of the Lep Group insurance division.

*

Mr. H. S. Clayton and Mr. G. P. Hardy have been appointed executive directors of WILLIS FABER AND DUMAS.

*

Mr. S. J. Dear has been appointed to the Bnard of MINET NESBITT DAVIS.

*

Mr. James Campbell has been appointed to the new post of manufacturing director of UKF FERTILISERS at Ince, near Cbester.

*

Mr. Adrian C. Buckmaster has been appointed managing director of DOWTY MINING EQUIPMENT.

*

Mr. Ian Stuart Macdonald Bryant had been appointed finance director and deputy managing director of PPR SECURITY GROUP, a subsidiary of Erskine House investment. He was previously financial controller of Oce Skycopy.

*

Mr. J. R. Wigley bas been appointed a director of BRITISH MEDICAL FINANCE, a subsidiary of United Dominions Trust.

*

Mr. Paul Grace, is to become actuary of SCOTTISH EQUITABLE LIFE ASSURANCE SOCIETY on September 1. He joins the Society from Zurich Insurance.

*

Mr. Tony Spence has been appointed to the Board of LESLIE AND CO., a member of the Wiltshier group. Also appointed to the Board is Mr. David R. Leggett who becomes a non-executive director. He is managing director of Wiltshiers.

*

Mr. Malcolm D. Gillingwater has been appointed managing director of CAMM (B. AND H.).

*

Mr. Peter Cross, a director and general manager of Iron Trades Mutual Insurance Company and Mr. B. de Nadaillac, president of *La Providence IARD*, have been elected chairman and deputy chairman respectively (for two years) of COMMUNITY REINSURANCE CORPORATION.

*

Sir Leslie Murphy has been appointed to the board of FOLKSAM INTERNATIONAL INSURANCE COMPANY (UK), London-based subsidiary of the Folksam Group of Sweden.

*

Mr. Michael Edmondson, chief surveyor of UNITED REAL PROPERTY TRUST, bas been appointed a director.

*

The Trade Secretary has appointed Professor John B. Heath as a part-time member of the board of the BRITISH AIRPORTS AUTHORITY for three years from June 1. He has been professor of economics at the London Business School since 1971.

*

ASSOCIATED LEISURE bas made the following appointments to the Boards of companies within the group. Mr. R. Bradley, Holmark Coin Equipment; Mr. G. A. Dolman, Burton Coin Machines; Dr. Patricia Huff, Associated Leisure Sales; and Mr. Roy Wasley, Associated Leisure Games.

*

Mr. Norman Jarritt bas been *appointed* senior executive vice president of NATIONAL WESTMINSTER BANK'S executive office North America, based in New York. Since 1977 he has been chief international executive, corporate financial services department, international banking division, in London. He succeeds Mr. Denis Bunyan, who is retiring at the end of July.

*

Mr. Kevin C. McCourt bas joined the Board and bas been appointed chairman of REED STENHOUSE, the Irish subsidiary of the Reed Stenhouse insurance broking group. He is at present chairman and executive director of Irish Steel.

*

Mr. George O. Morgan, a deputy chairman of ICI's agricultural division at Billingham, bas been appointed a non-executive director of SCOTTISH AGRICULTURAL INDUSTRIES from June 1. Mr. D. S. Hay bas resigned from the Board following his recent move from the post of a deputy chairman of ICI's agricultural division to that of general manager commercial at ICI's Millbank headquarters.

*

Mr. Nigel Dewbury bas been appointed executive director of UNICO FINANCE, the Belfast based merchant bank. He has resigned from the Board of Guinness and Mahon, Dublin.

*

Mr. Sidney Perez bas become executive deputy chairman of INTASUN and Mr. Jack Smith has been made managing director of the company's travel division.

*

Mr. R. W. Newman, financial director and company secretary of ELLIS MECHANICAL SERVICES has been appointed deputy group managing director.

*

Mr. Ian Munro has been appointed director-general of EURISOL-UK, the Association of British Manufacturers of Mineral Insulating Fibres.

*

Mr. F. J. Wheeler, bedding director of Staples and Co. has been elected president of the NATIONAL BEDDING FEDERATION in place of Mr. Bernard Fox.

*

Lord Harvey of Prestbury has been appointed a director and chairman, and Mr. D. M. G. Welch a director, of HARVEY AND BOYCE.

*

Mr. John H. Bradfield, chairman of Bishops Stores has been elected president of the NATIONAL FEDERATION OF WHOLESALE GROCERS AND PROVISION MERCHANTS.

*

Mr. Sidney Brazier, GM, has been appointed consultant explosives adviser to STERLING GUARDS.

*

Mr. Barry J. Conway has joined DOMINION SECURITIES as vice-president responsible for European operations. He was formerly associated with Wood Gundy.

*

Mr. A. C. Firth is to become group managing director of CONCENTRIC on September 29 when Mr. J. G. Perks, the chairman, relinquishes his position as chief executive. Mr. R. R. Freeman is to succeed Mr. Firth as managing director of Concentric Pumps, a subsidiary.

*

After assisting in the acquisition of BLUESTONE FURNITURE from the CHI Group, Mr. Clive J. Steiner has joined the new Board as a non-executive director with special responsibility for strategic financial planning and business control.

*

Mr. Parry Rogers, director of personnel of the Plessey Company, has become chairman of the PLESSEY PENSION TRUST on the retirement of Mr. Maurice Haddon-Grant, who remains on that Board as pensioner director.

*

CALEDONIAN OFFSHORE COMPANY states that Mr. Simon Keppie has resigned as a director and that Mr. Scott Bell, assistant general manager, Standard Life Assurance Company, has been appointed his successor.

*

ASTRA INDUSTRIAL GROUP states that Mr. D. A. Hickman has been appointed managing director of its subsidiary, Parkfield Iron and Steel Company.

*

Dr. John White has been appointed deputy chief executive of TARMAC'S building products division. As managing director of Permanite, one of five UK companies in the division, he is also responsible for waterproofing materials. He takes up his new appointment in July and at the same time will relinquish his responsibilities as Professor of economics and accounting at Leicester Polytechnic.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The Board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

YESTERDAY

DIVIDEND & INTEREST PAYMENTS—

Beckman (A.) 1.95p

Companies and Markets

CURRENCIES, MONEY and GOLD

Sterling's silver lining

Sterling rose to its best level for over five years last week both against the dollar and on a trade weighted basis. The attraction of UK Government bonds has ensured that demand for sterling remains strong, and that attraction remains as long as UK interest rates hold an edge over other rates. The latest round of oil price rises has also ensured the pound will not only be cushioned but will benefit, as North Sea oil stocks appreciate in value.

Since the beginning of the year sterling has risen against the dollar by more than 5 per cent, and its trade weighted index has improved by over 5½ per cent.

Its rise against the dollar has also been helped by the rapid decline in U.S. interest rates, with signs pointing towards some further easing before the latter level out. Prime rates have slipped from a peak of 20 per cent in April to 14½ per cent last week, and Euro-dollar rates have been halved from 18 per cent quoted a month ago.

On the other side, the fact that UK inflation is currently running at nearly 22 per cent is of little concern to the foreign investor, as long as it ensures that interest rates in the UK remain high.

GOLD

	May 23		May 22	
Gold Bullion (fine ounce)				
Close	$512-516	(£218-220)	$500-504	(£214¼-216¾)
Opening	$510-514	(£218½-220½)	$506-510	(£216¾-218¾)
Morning fixing	$510.50	(£218.630)	$507.50	(£216.397)
Afternoon fixing	$511.25	(£218.530)	$501	(£216.577)
Gold Coins				
Krugerrand	$528½-530½	(£225¼-227¼)	$517-520	(£222½-224½)
Mapleleaf	$523-528	(£223-226)	$507-517	(£218-223)
New Sovereigns	$131½-132½	(£56-57)	$128½-128½	(£55¼-56¼)
King Sovs	$155-159	(£66½-68½)	$152-155	(£65-67)
Victoria Sovs	$157-160	(£67-69)	$153-156	(£65½-67½)
French 20s	$139-143		$136-141	
50 pesos Mexico	$639-645		$625-632	
100 Cor. Austria	$505-511		$496-506	
$20 Eagles	$630-635		$627-632	
$10 Eagles	—			
$5 Eagles	—		—	

OTHER CURRENCIES

May 23	£	$		£ Note Rates
Argentina Peso	4215-4235	1806-1813	Austria	29.50-29.80
Australia Dollar	2.0815-2.0550	0.8765-0.8760	Belgium	67.05-67.65
Brazil Cruzeiro	118.33-117.33	49.935-50.135	Denmark	12.90-12.97
Finland Markka	8.53-8.66	3.6690-3.6700	France	9.63-9.67
Greek Drachma	99.879-102.194	49.75-42.95	Germany	4.15-4.1760
Hong Kong Dollar	11.5075-11.5275	4.9250-4.9280	Italy	1912-1970
Iran Rial	n/a	n/a	Japan	516-521
Kuwait Dinar (KD)	0.623-0.636	0.2683-0.2684	Netherlands	4.5450-4.5467
Luxembourg Frc.	66.80-66.90	28.49-28.51	Norway	11.38-11.42
Malaysia Dollar	5.0480-5.0600	2.1605-2.1625	Portugal	109-114.50
New Zealand Dlr.	2.3760-2.3810	1.0140-1.0160	Spain	160.00-167.50
Saudi Arab. Riyal	7.71-7.81	3.3270-3.3290	Sweden	9.71-9.81
Singapore Dollar	4.9970-5.0090	2.1390-2.1410	Switzerland	3.855-3.885
Sth. African Rand	1.8375-1.8395	0.7835-0.7845	United States	2.345-2.3435
U.A.E. Dirham	8.63-8.73	3.7190-3.7220	Yugoslavia	47.25-49.60

Rate given for Argentina is free rate.

THE POUND SPOT AND FORWARD

May 23	Day's Spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	2.3300-2.3475	2.3445-2.3455	1.77-1.67c pm	8.80	4.37-4.27 pm	7.37
Canada	2.7080-2.7215	2.7195-2.7205	1.50-1.40c pm	6.40	4.30-4.15 pm	8.21
Nethlnd.	4.56-4.59	4.57½-4.58½	3-2c pm	6.55	7½-6½ pm	6.11
Belgium	66.60-66.95	66.80-66.90	12-2c pm	1.26	37-27c pm	1.91
Denmark	12.94-13.01	12.99½-13.00½	¾-2¼ore dis	−1.50	3½-5½ dis	−1.37
Ireland	1.1150-1.1210	1.1200-1.1210	0.04-0.01p pm	0.27	0.25-0.20 pm	0.80
W. Ger.	4.15⅞-4.18½	4.16⅞-4.17⅞	3¾-2¾pf pm	8.27	8¾-7¾pf pm	7.54
Portugal	114.10-116.10	114.65-114.85	5c pm-30c dis	−1.31	10pm-85dis	−1.48
Spain	165.00-165.60	165.50-165.60	54c pm-par	1.96	5 pm-70 dis	−0.79
Italy	1954-1962	1960½-1961½	2¼-4¼lire dis	−1.99	5¾-7¾ dis	−1.27
Norway	11.39-11.45	11.44-11.45	4⅞-2⅞ore pm	3.67	12⅞-10⅞ pm	4.11
France	9.68½-9.74	9.72-9.73	4¾-3¾c pm	4.83	10¾-9¾ pm	4.22
Sweden	9.78½-9.83½	9.82-9.83	4⅞-3⅞ore pm	4.73	7⅞-6⅞ pm	2.90
Japan	515-525	518-519	2.15-1.80y pm	4.57	4.20-3.80 pm	3.09
Austria	29.65-29.85	29.78-29.83	21-17gro pm	7.65	54-48 pm	6.84
Switz.	3.86-3.89	3.86¾-3.87¾	4¼-3¼c pm	11.62	11⅝-10⅝ pm	11.49

Belgian rate is for convertible francs. Financial franc 70.05-70.15. Six-month forward dollar 7.57-7.47c pm. 12-month 11.00-10.80c pm.

THE DOLLAR SPOT AND FORWARD

May 23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	2.3300-2.3475	2.3445-2.3455	1.77-1.67c pm	8.80	4.37-4.27 pm	7.37
Ireland†	2.0880-2.0945	2.0920-2.0930	1.70-1.60c pm	9.46	4.70-4.50 pm	8.79
Canada	1.1602-1.1623	1.1602-1.1605	0.20-0.25c dis	−2.33	0.37-0.42dis	−1.36
Nethlnd.	1.9530-1.9618	1.9530-1.9545	0.40-0.50c dis	−2.76	0.67-0.77dis	−1.47
Belgium	28.49-28.57	28.49-28.51	17-20c dis	−7.79	39-43 dis	−5.75
Denmark	5.5565-5.5670	5.5565-5.5580	5.00-5.50ore dis	−11.34	11.7-12.7dis	−8.78
W. Ger.	1.7775-1.7850	1.7780-1.7790	0.05-0.15pf dis	−0.67	0.05pm-0.05dis	—
Portugal	48.85-49.10	48.85-49.05	33-48c dis	−9.93	80-120 dis	−9.17
Spain	70.55-70.75	70.56-70.65	35-50c dis	−7.22	120-165 dis	−7.79
Italy	836.50-838.00	836.50-837.00	7-8½lire dis	−11.11	18½-20 dis	−8.20
Norway	4.8795-4.8855	4.8815-4.8825	1.50-2.00ore dis	−4.30	3.25-3.75dis	−2.87
France	4.1460-4.1560	4.1460-4.1480	1.33-1.43c dis	−3.99	3.10-3.30dis	−3.09
Sweden	4.1900-4.1937	4.1900-4.1915	1.30-1.45ore dis	−3.94	4.30-4.45dis	−4.17
Japan	220.90-222.90	221.20-221.30	0.70-0.90y dis	−4.34	1.90-2.10dis	−3.61
Austria	12.71-12.72½	12.71½-12.72½	0.80-1.50gro dis	−1.08	0.2pm-1.7dis	−0.23
Switz.	1.6490-1.6650	1.6495-1.6505	0.53-0.43c pm	3.49	1.83-1.73 pm	4.31

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

The following nominal rates were quoted for London dollar certificates of deposit: one-month 8.85-8.95 per cent; three-months 9.05-9.15 per cent; six-months 9.00-9.10 per cent; one year 9.00-9.10 per cent.

May 23	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	West German Mark	French Franc	Italian Lira	Asian $	Japanese Yen
†Short term	17-17¼	8¼-8½	—	11-11¼	2-2½	9¼-9⅝	18½-19¾	14-18	8¼-8⅝	12½-12¾
7 days' notice	17⅛-17⅜	8⅜-8⅝	—	11-11¼	5½-6	9 1/16-9 3/16	18½-19¾	19-22½	8½-8⅝	19¾-13
Month	17¼-17½	8⅞-9⅛	11½-11⅞	11⅛-11⅜	5 5/16-5 7/16	9 5/16-9 7/16	18½-12¾	19-21	8⅞-9	12⅞-15½
Three months	17-17¼	9⅜-9⅝	10⅞-11¼	11⅛-11⅜	5½-5⅝	9 5/16-9 7/16	12 3/16-19 9/16	18¾-19¾	9¼-9⅝	16⅛-13¼
Six months	16½-16¾	9 5/16-9 11/16	10-10⅜	10⅞-11⅛	5 5/16-5 7/16	9 5/16-9 7/16	12¾-15	17½-18½	9 5/16-9 7/16	11⅞-12⅛
One year	15-16¼	9 5/16-9 11/16	9⅞-10¼	10¾-11	5 5/16-5 7/16	8 13/16-8 15/16	19⅞-13⅛	18-19	9¾-9⅞	10⅞-11⅛

Long-term Eurodollar two years 10⅜-10⅝ per cent; three years 10⅜-10⅝ per cent; four years 10⅜-10⅝ per cent; five years 10⅜-10⅝ per cent; nominal closing rates. Short-term rates are call for sterling, U.S. dollars, Canadian dollars and Japanese yen; others two days' notice. Asian rates are closing rates in Singapore.

LONDON MONEY RATES

May. 23 1980	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount market deposits	Treasury Bills ⊕	Eligible Bank Bills ⊕	Fine Trade Bills ⊕
Over night	—	16-17⅜	—	—	—	17-17½	16-17	—	—	—
2 days notice	—	—	17¼-17½	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	—	—	—	—	—
7 days notice	—	17¼-17½	17⅜-17½	—	17¾	17⅝	16¾-17	—	—	—
One month	17¼-17	17¼-17⅝	17¼	18⅝-18⅛	17⅝	17⅝-17¾	16¾	15 27/32-16	17 1/16	17¾
Two months	17 1/16-17	17 3/16-17¼	—	17¾-17⅜	17½	—	16½	16 1/32-16 1/16	16 11/16	17⅜
Three months	17 1/16-16 15/16	17 1/16-17 3/16	17-17⅛	17⅝-17	17 1/16	17½-17⅝	16⅛	16 3/32	16⅛	16⅞
Six months	16 3/32-16⅛	16 5/16-16⅝	16-16¼	16⅜-15⅞	16⅝	—	—	—	16⅛	15⅝
Nine months	15⅜-15¼	16½-16⅝	—	16¼-15⅞	15 15/16	—	—	—	—	—
One Year	14 15/16-14¾	15 1/16-15 1/16	16¼-15½	15⅝-15⅝	15⅝	—	—	—	—	—
Two years	—	—	16⅛-15¼	—	—	—	—	—	—	—

Local authority and finance houses seven days' notice, others seven days' fixed. *Long-term local authority mortgage rate nominally three years 14⅞-15 per cent; four years 14⅝-14⅞ per cent; five years 14⅝-14¾ per cent. ⊕Bank bill rates in table are buying rates for prime paper. Buying rates for four-month bank bills 16¼ per cent; four-month trade bills 16⅝ per cent.

Approximate selling rates for one-month Treasury bills 15 27/32-16⅛ per cent; two-months 15 23/32-15 25/32 per cent; three-months 16 1/32 per cent. Approximate selling rates for one-month bank bills 17 1/16 per cent; two-months 16 23/32 per cent; three-months 16⅝-16 7/16 per cent; one-month trade bills 17½ per cent; two-months 17⅜ per cent; and three-months 16⅝ per cent.

Finance Houses Base Rates (published by the Finance Houses Association) 19 per cent from May 1, 1980. Clearing Bank Deposit Rates for sums at seven days' notice 16 per cent. Clearing Bank Rates for lending 17 per cent. Treasury Bills: Average tender rates of discount 16.0947 per cent.

CURRENCY RATES

May 23	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	17	0.569188	0.604541
U.S. $	15	1.31871	1.41100
Canadian $	11.83	1.52274	1.64000
Austria Sch.	6¾	16.6990	17.9620
Belgian F.	14	37.4861	40.3616
Danish K	13	7.30523	7.85362
D'Mark	7½	2.34056	2.51779
Guilder	10	2.57094	2.76697
French Fr.	9½	5.45103	5.86411
Lira	15	1099.07	1181.36
Yen	9	293.198	315.101
Norwgn. Kr.	9	6.41062	6.89978
Spanish Pts.	8	93.6951	99.5730
Swedish Kr.	10	5.49697	5.91449
Swiss Fr.	3	2.17976	2.34649

WORLD VALUE OF THE POUND

The table below gives the latest available rates of exchange for the pound against various currencies on May 23, 1980. In some cases rates are nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Abbreviations: (A) approximate rate, no direct quotation available; (F) free rate; (P) based on U.S. dollar parities and going sterling/dollar rates; (S) member of the sterling area other than Scheduled Territories; (T) tourist rate; (Bas) basic rate; (bg) buying rate; (Bk) bankers' rate; (cm) commercial rate; (cn) convertible rate; (fn) financial rates; (exC) exchange certificate rate; (k) Scheduled Territory; (nc) non-commercial rate; (nom) nominal; (o) official rate; (sg) selling rate.

Place and local unit		Value of £ sterling
Afghanistan	Afghani	100.0
Albania	Lek	10.28
Algeria	Dinar	8.9872
Andorra	French Franc	9.796
	Spanish Peseta	165.55
Angola	Kwanza	66.832
Antigua (S)	E. Caribbean $	6.38
Argentina	Ar. Peso Free Rate	4,225
Australia (S)	Australian $	2.0535
Austria	Schilling	29.805
Azores	Portug. Escudo	114.75
Bahamas (S)	Ba. Dollar	2.3450
Bahrain (S)	Dinar	0.8735
Balearic Isles	Spa. Peseta	165.55
Bangladesh (S)	Taka	34.52
Barbados (S)	Babados $††	4.6900
Belgium	B. Franc	(com) 66.85
		(fn) 70.10
Belize	B $	4.6900
Benin	C.F.A. Franc	486.25
Bermuda (S)	Bda $	2.3450
Bhutan	Indian Rupee	18.23
Bolivia	Bolivian Peso	58.628
Botswana (S)	Pula	1.8355
Brazil	Cruzeiro ‡‡	116.38
Brit. Virgin Isles (S)	U.S. $	2.3450
Brunei (S)	Brunei $	5.0030
Bulgaria	Lev	1.9590
Burma	Kyat	15.78
Burundi	Burundi Franc	205.74
Cameroon Repub'c	C.F.A. Franc	476.26
Canada	Canadian $	2.7200
Canary Islands	Spanish Peseta	165.55
Cape Verde Isle	Cape V. Escudo	86.52
Cayman Islands (S)	Cay. Is. $	1.9452
Cent. Af. Repub.	C.F.A. Franc	486.26
Chad	C.F.A. Franc	486.26
Chile	C. Peso	(Bk) 99.0
China	Renminbi Yuan	3.4748
Colombia	C. Peso	(F) 105.48
Comoro Islands	C.F.A. Franc	486.26
Congo (Brazaville)	C.F.A. Franc	486.25
Costa Rica	Colon	20.167
Cuba	Cuban Peso	1.5999
Cyprus (S)	Cyprus £	0.8160
Czechoslovakia	Koruna	(com) 12.90
		n/c 24.28
		(T) 20.48
Denmark	Danish Krone	13.00
Djibouti	Fr.	410.0 (Sg)
Dominica (S)	E. Caribbean $	6.38
Dominican Repub	Dominican Peso	2.3450
Ecuador	Sucre	(O) 58.56
		(F) 65.73
Egypt	Egyptian £	(U) 1.63
Equatorial Guinea	Peseta	165.55
Ethiopia	Ethiopian Birr	(P) 4.7850
Falkland Islands (S)	Falkland Is. £	1.0
Faroe Islands	Danish Krone	13.00
Fiji Islands	Fiji $	1.9070
Finland	Markka	8.555
France	French Franc	9.725
Frnch C'tyin Af*	C.F.A. Franc	486.25
French Guiana	Local Franc	9.725
French Pacific Is.	C.F.P. Franc	173
Gabon	C.F.A. Franc	486.25
Gambia (S)	Dalasi	4.0
Germany (East)	Ostmark	4.1728
Germany (West)	Deutsche Mark	4.1725
Ghana (S)	Cedi	6.35
Gibraltar (K)	Gibraltar £	1.0
Greece	Drachma	101.053

Place and local unit		Value of £ sterling
Greenland	Danish Kroner	13.00
Grenada (S)	E. Caribbean $	6.38
Guadaloupe	Local Franc	9.726
Guam	U.S. $	2.3450
Guatemala	Quetzal	2.3450
Guinea Republic	Sily	44.20
Guinea Bissau	Peso	88.48
Guyana (S)	Guyanese $	5.9795
Haiti	Gourd	11.726
Honduras Repub.	Lempira	4.6900
Hong Kong (S)	H.K. $	11.5176
Hungary	Forint	(com) 75.4284
		(T)(nc) 48.5718
Iceland (S)	I. Krona	1,195
India (S)	Ind. Rupee	18.25
Indonesia	Rupiah	1,466.6
Iran	Rial	n/a
Iraq	Iraq Dinar	0.68816
Irish Republic (k)	Irish £	1.1206
Israel	Shekel	10.50
Italy	Lira	1,961.0
Ivory Coast	C.F.A. Franc	486.26
Jamaica (S)	Jamaica Dollar	4.1825
Japan	Yen	518.5
Jordan (S)	Jordan Dinar	0.670 (sg)
Kampuchea	Riel	2,820.00
Kenya (S)	Kenya Shilling	17.125
Kiribati	Australian $	2.0535
Korea (Nth)	Won	1.9875 (II)
Korea (Sth)	Won	1,386.34
Kuwait	Kuwait Dinar	0.628
Laos	Kip Pot Po	938.00
Lebanon	Lebanese £	8.0328
Lesotho	Loti	1.8385
Liberia	Liberian $	2.3450
Libya	Libyan Dinar	0.6942
Liechtenstein	Swiss Franc	3.8725
Luxembourg	Lux Franc	66.85
Macao	Pataca	12.44
Madeira	Portug'se Escudo	114.76
Malagasy Republic	MG Franc	486.26
Malawi (S)	Kwacha	1.87
Malaysia (S)	Ringgit	5.054
Maldive Islands (S)	Mal Rupee	9.2169
Mali Republic	Mali Franc	979.6
Malta (S)	Maltese £	0.80
Martinique	Local Franc	9.726
Mauritania	Ouguiya ‡	97.78
Mauritius (S)	M. Rupee	17.90
Mexico	Mexican Peso	53.40
Miquelon	C.F.A. Franc	486.26
Monaco	French Franc	9.725
Mongolia	Tugrik	(o) 5.185 (II)
Montserrat	E. Caribbean $	6.38
Morocco	Dirham	8.80 (sg)
Mozambique	Moz. Escudo	65.92
Nauru	Australian Dollar	2.0535
Nepal	Nepalese Rupee	28.08
Netherlands	Guilder	4.68
Netherland Antilles	Antillian Guilder	4.1976
New Hebrides	Franc.	166.0
	Aust. Dollar	2.0535
New Zealand (S)	N. Z. Dollar	2.3785
Nicaragua	Cordoba	23.35
Niger Republic	C. F. A. Franc	486.26
Nigeria (S)	Naira	1.270548 (sg)
Norway	Norway Krone	11.445
Oman Sul'ate of (S)	Rial Omani	0.806
Pakistan	Pakistan Rupee	22.90
Panama	Balboa	2.3450
Papua N. Guinea (S)	Kina	1.6656
Paraguay	Guarani	291.46

Place and local unit		Value of £ sterling
Peru	Sol	exc(A) 528.70
Philippines	Philippine Peso	16.95
Pitcairn Islands (S)	£ Sterling	—
	New Zealand $	2.3785
Poland	Zloty	(Cm) 69.20
		(T) 69.20
Portugal	Portugu'se Escudo	114.76
Port Timor	Timor Escudo	114.75
Puerto Rico	U.S. $	2.3450
Qatar (S)	Qatar Ryal	8.58
Reunion Ile de la	French Franc	9.725
Romania	Leu	(Cm) 9.35
		(n/c) T25.64
Rwanda	Rwanda Franc	213.39
St. Christopher (S)	E. Caribbean $	6.38
St. Helena	St. Helena £	1.0
St. Lucia	E. Caribbean $	6.38
St. Pierre	Local Franc	9.725
St. Vincent (S)	E. Caribbean $	6.38
Salvador El	Colon	5.84
Samoa American	U.S. $	2.3450
San Marino	Italian Lire	1,961.0
Sao To'e & Principe	Dobra	79.16
Saudi Arabia	Ryal	7.76
Senegal	C.F.A. Franc	486.25
Seychelles	S. Rupee	14.35
Sierra Leone (S)	Leone	2.3900
Singapore (S)	Singapore $	5.0030
Solomon Islands (S)	Solomon Is. $	1.9985
Somali Republic	Somali Shilling	(A) 14.13
South Africa (S)	Rand	1.8365
South West African Territories (S)	S. A. Rand	1.8365
Spain	Peseta	165.55
Spanish ports in North Africa	Peseta	165.55
Sri Lanka (S)	S. L. Rupee	37.00
Sudan Republic	Sudan £ (1)	1.17
Sudan Republic	Sudan £ (2)	1.87
Surinam	S. Guilder	4.1976
Swaziland (S)	Lilangeni	1.8385
Sweden	S. Krona	9.825
Switzerland	Swiss Franc	3.8726
Syria	Syria £	(A) 9.2069
Taiwan	New Taiwan	(P) 84.42
Tanzania (S)	Tan. Shilling	18.85
Thailand	Baht	46.45
Togo Republic	C.F.A. Franc	486.25
Tonga Islands (S)	Pa'anga	2.0725
Trinidad (S)	Trinidad & Tob. $	5.625
Tunisia	Tunisian Dinar	0.913 (SG)
Turkey	Turkish Lira	169.40
Turks & Caicos	U.S. $	2.3450
Tuvalu	Australian $	2.0535
Uganda (S)	Uganda Shilling	17.0
United States	U.S. Dollar	2.3450
Uruguay	Uruguay Peso	(com) 20.56
		(fn) 20.60
Utd. Arab Emirates	U.A.E. Dirham	8.68
U.S.S.R.	Rouble	1.4892
Upper Volta	C.F.A. Franc	486.25
Vatican	Italian Lire	1,961.0
Venezuela	Bolivar	10.25
Vietnam	Dong	(O) 5.1191
		(T) 4.8665 (I)
Virgin Islands U.S.	U.S. Dollar	2.3450
Western Samoa (S)	Samoan Tala	2.1616
Yemen (Nth)	Ryal	10.56 (SG)
Yemen (Sth)	S. Yemen Dinar	(A) 0.8008
Yugoslavia	New Y Dinar	46.9393
Zaire Republic	Zaire	6.754
Zambia	Kwacha	1.81
Zimbabwe	Zimbabwe $	1.50

*That part of the French community in Africa formerly French West Africa or French Equatorial Africa. † Rupees per pound. ‡ General rates of oil and iron exports 98.48. ** Rate is the transfer market (controlled). †† Rate is now based on 2 Barbados $ to the dollar. ‡‡ Now one official rate. (U) Unified rate. Applicable on all transactions except countries having a bilateral agreement with Egypt, and who are not members of IMF. (||) Based on gross rates against Russian rouble. (1) Official rate for exports and imports. (2) Parallel rate for all transactions except specified exports and imports.

Sharp downturn for Hudsons Bay

BY ROBERT GIBBENS IN MONTREAL

HUDSONS BAY Company, Canada's largest merchandising group and also a big factor in real estate and resources, has surprised the financial markets with the extent of its operating loss for the first quarter ended April 30.

The company, which is now controlled by the Thomson family interests, reports an operating loss for the quarter of C$8.6m (U.S.$10m) compared with an operating profit of C$2.9m or 1 cent a share for the first quarter of the previous year. Revenues totalled C$754m, against C$701m.

Hudson's Bay had earlier warned that its first quarter results would be "poor," but the markets did not expect such a large operating loss.

High interest rates and weakening demand due to the North American recession have been having an adverse effect on most Canadian merchandisers this year, Hudson's Bay cites a generally softer retail picture, and does not see much of an upturn coming during the year. It owns the Bay chain of department stores across Canada and also Simpsons, controls the Zeller's, the mass-merchandising chain, and owns a 44 per cent stake in Simpsons-Sears, another department store chain which also operates Canada's largest mail order business and is controlled by Sears Roebuck of the U.S.

Hudson's Bay has an extensive expansion programme under way and has a large short-term debt position as a sequel to its takeover activities of the past two years. Financing costs in the first quarter were C$30.9m against C$26m, as interest rates rose to new peaks in April.

The company's merchandising division turned in the largest loss in the group, including Bay, Simpsons and Zeller's results and also those of the fur division. There was a merchandising loss of $5.4m against a profit of $16.9m in the previous first quarter. Last year's figures were buoyed by record high prices and volume in furs.

Canadian merchandisers make about 40 per cent of their profits during the final months of the year, but Hudsons Bay does not expect full year's earning to match last year's C$2.98 a share.

The performance in other divisions in the first quarter was better. Real estate revenues almost doubled to C$6m and resources income was steady around C$4m. Hudsons Bay's final loss for the quarter was C$1.3m after a special gain of C$7.2m on exchange of Bay debentures for common shares of Hudson's Bay Oil and Gas. A year earlier a C$5.5m gain from the same source made final earnings of C$8.4m or 25 cents a share.

Further slide in earnings at Swedish bank

By William Dullforce in Stockholm

SKANDINAVISKA Enskilda Banken reports a further slide in earnings for the first four months of 1980. At SKr 204m ($48.3m) earnings on the banking operations were SKr 30m lower than in the previous four months and 30 per cent or SKr 89m short of the result for the first four months of 1979.

The bank's total income fell by SKr 52m or 7 per cent against the corresponding period of last year, while costs, including losses on loans, climbed by SKr 37m or 9 per cent. Figures for the consolidated account, including bank subsidiaries, are not yet available.

The interim report attributes the profit slump to the tight monetary controls which started to depress bank earnings in the last four months of last year.

A reduction from 8 to 2 per cent in the cash quotas the banks must hold in the Riksbank (central bank) was made in April. This will have a positive effect on Skandinaviska Enskilda's 1980 earnings in that the SKr 2.7bn released can be placed in state bonds with a relatively high coupon.

The managing directors maintain their earlier forecast that 1980 profits would be "clearly lower" than in 1979.

The Bank's lending rose by SKr 5.4bn or almost 19 per cent.

Skandinaviska Enskilda's placement margin—the difference between the return on all its placements and the average cost of liabilities—fell from 2.74 per cent during the first four months of 1979 to 1.87 per cent.

Full year deficit at Alitalia

BY RUPERT CORNWALL IN ROME

ALITALIA, the Italian state airline, has reported a net loss of L3.79bn ($4.5m) for last year, compared with a profit of L14.1bn in 1978. However, the true loss would have been L13.79bn, but for the use of L10bn set aside in previous years for reserves.

The deficit, in keeping with the performance of most major international airlines last year, reflected in part the doubling of aircraft fuel costs during the year, and the loss of revenue caused by the compulsory grounding of Alitalia's DC-10 fleet for a month after the Chicago air disaster.

The Board pointed out, however, that the problems had been made worse by the plague of stoppages throughout the year, first by hostesses and stewards and then by air traffic controllers. These had forced long delays and numerous cancellations of flights.

Total revenue in 1979 rose to L1,079bn ($1.28bn), up 12.3 per cent on the L960bn of 1978, while overall costs climbed by 15 per cent to L1,093bn from L946bn. Depreciation and amortisation provisions were L67bn.

Meanwhile, the airline is planning to announce at the annual shareholders meeting next month the name of the accounting firm which will henceforth carry out the full auditing of its yearly balance sheet.

● ANIC, the chemical subsidiary of the state-owned ENI energy group, yesterday reported a two-thirds drop in its loss last year, to L56bn from 1978's L178bn ($212m). The deficit was entirely due to continuing losses on its synthetic fibres operations, especially at Ottana in Sardinia.

The loss was in spite of a 50 per cent jump in group sales in 1979. Despite further progress in the first four months of 1980, during which turnover climbed 30 per cent to L920bn ($1.1bn), compared with the same period of last year, the fibres division is continuing to lose money.

Advance by Mitsubishi

TOKYO — Japan's leading machinery maker, Mitsubishi Heavy Industries, reports that its parent company net profit in the year ended March 31 rose 20.9 per cent to Y11.7bn ($52m) from Y9.67bn in the previous year. Sales gained 5.8 per cent to Y1,349bn. Per-share profit was unchanged at Y4.

The major reason for the net profit increase was a jump in foreign exchange earnings due to the yen's decline. The company posted a Y7.5bn foreign exchange gain, Mitsubishi said in the previous year, it had suffered a Y2.5bn exchange loss because of the yen's appreciation.

Among major items, sales of ships and steel bridges remained sluggish at Y225.12bn, down 1.9 per cent

Mitsubishi said it expected both after-tax profit and sales for the current year ending March 31, 1981, to be almost unchanged from those of 1979-1980.

● Tokyo Gas Company reports after-tax profits of Y1.75bn for the year ended March 31, compared with Y13.3bn in the previous year. Sales rose to Y464.2bn from Y428.4bn. The dividend is Y4, against Y5.

● Kansai Electric Power Company has suffered an after-tax deficit of Y18.77bn for the year ended March 31, compared with a Y45.87bn profit in the previous year. Sales were Y1,220bn, against Y1,170bn. The dividend is cut from Y50 to Y30.

Agencies

Japanese telecommunications, Page 18

SHV seeks overseas base

By Charles Batchelor in Amsterdam

A MAJOR Dutch trading group, SHV Holdings, is studying ways of carrying on its worldwide operations from a base outside Europe in the face of growing international tension. SHV, which ranks among the top six or seven companies in the Netherlands in terms of turnover, is considering moving its registered office to the U.S. or Brazil.

SHV is a privately-owned company which this week reported a trebling of its net profit to Fl 109m ($55m) in 1979, on sales 18 per cent higher at Fl 10.1bn ($5.1bn).

PENDING DIVIDENDS

	Date	Announcement last year		Date	Announcement last year
*Allied Breweries	June 10	Final 1.831	*ICL	May 29	Int. 3.5
*Anglo Am. Corp. of SA	June 5	Final 32 cts.	Intl. Timber	June 13	Final 5.085
Arbuthnot Latham	June 21	Final due	Johnson Matthey	June 12	Final 5.9
Armitage Shanks	June 6	Final 3.18	Kenning Motor	June 25	Int. 1.75
Assoc. Brit. Foods	June 11	Sec. Int. 1.7	Lindustries	June 21	Final 6.6
BAT Inds.	June 26	Final due	*Lond. & O'seas Frtrs.	May 30	Final 1.072
BPB Inds.	June 27	Final 9.0	Lonrho	June 29	Int. 2.64
Baker Perkins	June 21	Sec. int. 4.35	MK Electronic	June 27	Final 8.7
*Bass	May 28	Int. 2.1	*Marley	June 2	Int. 1.5
*Beecham	May 29	Final 12.075	*Metal Box	June 11	Final 10.72
Benelard (S. & W.)	June 21	Int. 2.5	*MEPC	June 3	Int. 1.5
Brit. & Com. Shipg.	June 14	Final 5.838	*Minster Assets	May 30	Final 2.3
Brown (John)	June 29	Final 10.239	News Intnl.	June 25	Int. 3.0
*Capital and Counties	May 30	Int. 2.15	Norcros	June 22	Final 3.18
*Chloride	June 12	Final 4.6	*Northern Foods	June 12	Int. 1.65
Chubb	June 27	Final 3.478	*Pegler-Hattersley	June 5	Final 5.031
*Coalite	May 29	Final 2.043	*Percy Bilton	June 2	Final 4.636
Comp Air	June 13	Int. 1.65	Pilkington Bros.	June 16	Final 4.6
*Courtaulds	May 29	Final 5.674	Plessey	June 28	Final 3.645
Daily Mail & Gen. Tst.	June 12	Int. 9.368	Powell Duffryn	June 27	Final 7.1
Dawson Int.	June 18	Final 4	*Prop. of Hays Wharf	May 29	Int. 1.72
*De La Rue	June 3	Final due	*Racal Electronics	June 18	Final 6.9
Eastern Produce	May 30	Final 3.082	Redland	June 28	Final 4.0
*Elliott (B.)	June 25	Final 7.25	*Reed Int.	June 3	Final 1.244
Eng. China Clays	June 14	Int. 2.117	Renold	June 26	Final 7.55
*Exchange Telegraph	May 29	Final 4.0335	*600 Group	June 11	Final 2.634
GEI Intl.	June 12	Final 3.028	Sketchley	June 5	Final 3.294
*Goldfields Group	June 10	Int. 1.53	Stead and Simpson	June 28	Final 2.05
Granada	June 20	Int. 1.44	Tesco Stores	June 20	Final 1.1939
Gt. Northern Inv. Tst.	June 18	Int. 1.5	Trusthouse Forte	June 19	Int. 2
*Great Portland Estates	June 0	Final 4.0	Tunnel	June 21	Final 8.5
*Greenall Whitley	May 29	Int. 3.15	*UBM	May 29	Final 2.7856
*Guinness (A.)	June 13	Final 8.519	Ward (T.W.)	June 3	Int. 2.093
Guthrie	June 7	Final 15.0	Wedgwood	June 13	Final 2.426
Hambros	June 18	Final 67.24	Westland Aircraft	June 13	Int. 1.0
*Hanson Trust	June 11	Int. 3.327	Whitecroft	June 25	Final 5.2
*Harrisons and Crosfield	June 3	Final 17.53	Wilkinson Match	June 21	Final 7.146
Hill Samuel	June 12	Final 3.486	*Wolv. & Dudley Brews.	May 30	Int. 2.5

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

BASE LENDING RATES

A.B.N. Bank	17 %	■ Hambros Bank	17 %
Allied Irish Bank	17 %	■ Hill Samuel	§17 %
American Express Bk.	17 %	C. Hoare & Co.	†17 %
Amro Bank	17 %	Hongkong & Shanghai	17 %
Henry Ansbacher	17 %	Industrial Bk. of Scot.	17½%
A P Bank Ltd.	17 %	Keyser Ullmann	17 %
■ Arbuthnot Latham	17 %	Knowsley & Co. Ltd.	19 %
Associates Cap. Corp.	17 %	Langris Trust Ltd.	17 %
Banco de Bilbao	17 %	Lloyds Bank	17 %
Bank of Credit & Cmce.	17 %	Edward Manson & Co.	18 %
Bank of Cyprus	17 %	Midland Bank	17 %
Bank of N.S.W.	17 %	■ Samuel Montagu	17 %
Banque Belge Ltd.	17 %	■ Morgan Grenfell	17 %
Banque du Rhone et de la Tamise S.A.	17½%	National Westminster	17 %
Barclays Bank	17 %	Norwich General Trust	17 %
Bremar Holdings Ltd.	18 %	P. S. Refson & Co.	17 %
Brit. Bank of Mid. East	17 %	Rossminster	17 %
■ Brown Shipley	17 %	Ryl. Bk Canada (Ldn.)	17 %
Canada Perm't Trust	18 %	Schlesinger Limited	17 %
Cayzer Ltd.	17 %	E. S. Schwab	17 %
Cedar Holdings	17 %	Security Trust Co. Ltd.	18 %
■ Charterhouse Japhet	17 %	Standard Chartered	17 %
Choulartons	17 %	Trade Dev. Bank	17 %
C. E. Coates	17 %	Trustee Savings Bank	17 %
Consolidated Credits	17 %	Twentieth Century Bk.	17 %
Co-operative Bank	*17 %	United Bank of Kuwait	17 %
Corinthian Secs.	17 %	Whiteaway Laidlaw	17½%
The Cyprus Popular Bk.	17 %	Williams & Glyn's	17 %
Duncan Lawrie	17 %	Wintrust Secs. Ltd.	17 %
Eagil Trust	17 %	Yorkshire Bank	17 %
E. T. Trust Limited	17 %		
First Nat. Fin. Corp.	19½%		
First Nat. Secs. Ltd.	19 %		
Robert Fraser	17 %		
■ Antony Gibbs	17 %		
Greyhound Guaranty	17 %		
Grindlays Bank	‡17 %		
■ Guinness Mahon	17 %		

■ Members of the Accepting Houses Committee.
* 7-day deposits 15%, 1-month deposits 15¼%.
† 7-day deposits on sums of £10,000 and under 15%, up to £25,000 15¼% and over £25,000 15½%.
‡ Call deposits over £1,000 15%.
§ Demand deposits 15%.

RECENT ISSUES

EQUITIES

Issue Price p‡	Amount Paid Up	Latest Renunc. Date	1980 High	1980 Low	Stock	Closing Price p‡	+ or −	Div. Amount	Times Covered	Gross Yield	P/E Ratio
85	F.P.	18/5	05	84	Amstrad Cons. Elect.	85	......	bd3.3	3.0	5.5	5.8
	F.P.	—	180	135	††Hemerdon Mng. 10c	140	......	—	—	—	—
SS	Nil	20/5	80	74	Home Farm Prods 10p	78	......	b2.9	2.6	5.5	10.7
‖	F.P.	—	305	305	Lionel Corp $0.10	305	......	Q15c	—	2.2	—
§83	F.P.	—	91	83	Oakwood Group	83	......	66.5	2.4	11.2	5.4
100	F.P.	—	110	98	Peerless	98	......	b6.3	2.8	9.2	4.9

FIXED INTEREST STOCKS

Issue Price £	Amount Paid Up	Latest Renunc. Date	1980 High	1980 Low	Stock	Closing Price £	+ or −
‖	Nil	3/6	31pm	11pm	Automated Sec. 8% Cnv. Uns. Ln. '95	24pm	......
100p	F.P.	—	101	98	Edwards (L.C.) 8% Conv. Red. Cum. Pref	101	......
¶¶	F.P.	30/5	110⅛	95¼	Imp. Cont. Gas 8% Conv. Loan. 1985-2000	108	......
‖	F.P.	0/5	106	100½	Leigh Interests 10pc Conv. Uns Ln. 1984-85	103	......
¶	F.P.	30/5	102	100¼	Mid Southern 10% Red Prf. 1985	108	......
‖	F.P.	27/6	104	101½	North Brit. Props. 9½% Cov. Uns. Ln. 1998	101⅛	......
¶¶	F.P.	9/5	93	91	Norwest Holst 11½% Red Cum Pref 1986	98	......

"RIGHTS" OFFERS

Issue Price p‡	Amount Paid Up	Latest Renunc. Date ●	Latest Renunc. Date ■	1980 High	1980 Low	Stock	Closing Price p‡	+ or −
30	F.P.	1/5	12/6	150	120	Brent Chemicals	146	......
ee	Nil	29/5	4/7	34pm	19pm	Clifford's Dairies 'A'	19pm	......
19	Nil	30/5	—	1½pm	1½pm	East Rand Cons.	1½pm	......
54	Nil	—	—	0½pm	9pm	Eleco	9pm	......
27	F.P.	16/5	15/6	31	27	First Castle Secs.	27	−1
40	Nil	30/6	19/7	7pm	5½pm	Hawley Leisure	5½pm	......
48	F.P.	86/4	23/5	70	58	Howard Tenens	68	......
118	Nil	—	—	15pm	8pm	Linfood	10pm	−2
60cts	Nil	—	—	485pm	180pm	Pancontinental	275pm	......
54	F.P.	9/5	27/6	75	67	Rugby Portland Cement	78	−5
180	F.P.	14/5	27/6	305	194	Unitech	285	+2
68	F.P.		13/6	76	68	United Biscuits	70	......
110	F.P.	[illegible]	15/5	143	123	Watmoughs	135	......

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimate. g Assumed dividend and yield. u Forecast dividend: cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1979. Q Gross. T Figures assumed. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price to public. p‡ Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or takeover. ‖‖ Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. †† Unlisted security. ‡‡ Issued as units comprising 2 participating pref. shares and 1 ord. share at R3.50 per unit. † Dealings under special rule.

LOCAL AUTHORITY BOND TABLE

Authority (telephone number in parentheses)	Annual gross interest %	Interest payable	Minimum sum £	Life of bond Year
Knowsley (051 548 6555)	14¼	½-year	1,000	1
Redbridge (01-478 3020)	14½	½-year	200	2-3
Redbridge (01-478 3020)	14¾	½-year	200	5-6

UNIT TRUST SERVICE

OFFSHORE & OVERSEAS—contd.

King & Shaxson Mngrs.
1, Charing Cross, St. Helier, Jersey. (0534) 73741
Valley Hse., St. Peter Port, Grnsy. (0481) 24706
1, Thomas Street, Douglas, I.O.M. (0624) 4856

Schlesinger International Mngt. Ltd.
41, La Motte St., St. Helier, Jersey. 0534 73588

Schroder Life Group

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Abbey Unit Tst. Mngrs. (a)

Allen Harvey & Ross Unit Tst. Mngrs.

Allied Hambro Group (a) (g)

Anderson Unit Trust Managers Ltd.

Ansbacher Unit Mgmt. Co. Ltd.

Arbuthnot Securities Ltd. (a)(c)

Archway Unit Tst. Mgs. Ltd.

Barclays Unicorn Ltd. (a)(c)(g)

Baring Brothers & Co. Ltd. (a)(x)

Bishopsgate Progressive Mgmt. Co.

Bridge Fund Managers (a)(c)

Britannia Trust Management (a)(g)(c)

The British Life Office Ltd. (a)

Brown Shipley & Co. Ltd. (a)(g)

Canada Life Unit Tst. Mngrs. Ltd.

Capel (James) Mgmt. Ltd.

Carliol Unit Fd. Mgrs. Ltd. (a)(c)

Cazenove Unit Trust Managers (a)

Charities Official Invest. Fund

Chieftain Trust Managers Ltd. (a)(g)

Confederation Funds Mgt. Ltd. (a)

Cosmopolitan Fund Managers

Crescent Unit Tst. Mgrs. Ltd. (a)(g)

Discretionary Unit Fund Managers

E. F. Winchester Fund Mngt. Ltd.

Emson & Dudley Tst. Mngmnt. Ltd.

Equity & Law Un. Tr. M. (a)(b)(c)

Fidelity International Management Ltd.

James Finlay Unit Trust Mngt. Ltd.

Framlington Unit Mgt. Ltd. (a)

Friends' Provdt. Unit Tr. Mgrs.

Funds in Court

G.T. Unit Managers Ltd.

G. & A. Trust (a) (g)

Gartmore Fund Managers (a)(g)

Gibbs (Antony) Unit Tst. Mgs. Ltd. (a)

Govett (John)

Grieveson Management Co. Ltd.

Guardian Royal Ex. Unit Mgrs. Ltd.

Henderson Administration (a)(b)(c)

Hill Samuel Unit Tst. Mgrs. (a)

Intel. (a)(g)

Investment Intelligence Ltd. (a)(g)

Key Fund Managers Ltd. (a)(g)

Kleinwort Benson Unit Managers

L & C Unit Trust Management Ltd.

Lawson Secs. Ltd. (a)(c)

Legal & General Tyndall Fund

Leonine Administration Ltd.

Lloyds Bk. Unit Tst. Mngrs. Ltd. (a)

Lloyd's Life Unit Tst. Mngrs. Ltd.

Local Authorities' Mutual Invest. Trust

M & G Group (y)(c)(z)

Manulife Management Ltd.

Mayflower Management Co. Ltd.

Mercury Fund Managers Ltd.

Midland Bank Group Unit Trust Managers Ltd. (a)

Minster Fund Managers Ltd.

MLA Unit Trust Mngemnt. Ltd.

Murray Johnstone U.T. Mgmt. (a)

Mutual Unit Trust Managers (a)(g)

National Provident Inv. Mngrs. Ltd.

National Westminster (a)

NEL Trust Managers Ltd. (a)(g)

Northgate Unit Trust Managers Ltd. (c)(y)

Norwich Union Insurance Group (b)

Pearl Trust Managers Ltd. (a)(g)(z)

Pelican Units Admin. Ltd. (g)(x)

Perpetual Unit Trust Mngmt. (a)

Practical Invest. Co. Ltd. (y)(c)

Provincial Life Inv. Co. Ltd.

Prudl. Portfolio Mngrs. Ltd. (a)(b)(c)

Quilter Management Co. Ltd.

Reliance Unit Mgrs. Ltd.

Ridgefield Management Ltd.

Rothschild Asset Management (g)

Rowan Unit Trust Mngt. Ltd. (a)

Royal Tst. Can. Fd. Mgrs. Ltd.

Save & Prosper Group

Schlesinger Trust Mngrs. Ltd. (a)(z)

J. Henry Schroder Wagg & Co. Ltd.

Scottish Equitable Fnd. Mgrs. Ltd.

Security Selection Ltd.

Stewart Unit Tst. Managers Ltd. (a)

Sun Alliance Fund Mngt. Ltd.

Target Tst. Mngrs. Ltd. (a)(g)

Tower Unit Trust Mngt. Ltd.

Trades Union Unit Tst. Managers

Transatlantic and Gen. Secs. Co. (y)

Tyndall Managers Ltd. (y)

TSB Unit Trusts (y)

Ulster Bank (a)

Unit Trust Account & Mgmt. Ltd.

Wieler Growth Fund

NOTES

Prices are in pence unless otherwise indicated. Yields % (shown in last column) allow for all buying expenses.

INSURANCE PROPERTY BONDS

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Albany Life Assurance Co. Ltd.

AMEV Life Assurance Ltd.

Barclays Life Assur. Co. Ltd.

Beehive Life Assur. Co. Ltd.

Canada Life Assurance Co.

Cannon Assurance Ltd.

Capital Life Assurance

Charterhouse Magna Gp.

Chieftain Assurance Funds

City of Westminster Assurance

Commercial Union Group

Confederation Life Insurance Co.

Cornhill Insurance Co. Ltd.

Credit & Commerce Insurance

Crown Life

Crusader Insurance Co. Ltd.

Eagle Star Insur./Midland Assur.

Equity & Law Life Ass. Soc. Ltd.

Equity & Law (Managed Funds) Ltd.

Family Assurance Society

Gartmore Bonds

Assicurazioni GENERALI S.p.A.

General Portfolio Life Ins. C. Ltd.

Gresham Life Ass. Soc. Ltd.

Growth & Sec. Life Ass. Soc. Ltd.

Guardian Royal Exchange

Hambro Life Assurance Limited

Hearts of Oak Benefit Society

Hill Samuel Life Assur. Ltd.

Imperial Life Ass. Co. of Canada

Irish Life Assurance Co. Ltd.

King & Shaxson Ltd.

Langham Life Assur. Co. Ltd.

Legal & General (Unit Assur.) Ltd.

Legal & General Prop. Fd. Mgrs. Ltd.

Life Assur. Co. of Pennsylvania

Lloyds Life Assurance

London Indemnity & Gnl. Ins. Co. Ltd.

London Life Linked Assur. Ltd.

The London & Manchester Ass. Gp.

M & G Group

Manufacturers Life Insurance Co.

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NEL Pensions Ltd.

NPI Pensions Management Ltd.

New Zealand Ins. Co. (UK) Ltd.

Norwich Union Insurance Group

Pearl Assurance (Unit Funds) Ltd.

Phoenix Assurance Co. Ltd.

Planned Savings Group

Prop. Equity & Life Ass. Co.

Property Growth Assur. Co. Ltd.

Providence Capitol Life Ass. Co. Ltd.

Provincial Life Assurance Co. Ltd.

Prudential Pensions Limited

Reliance Mutual

Rothschild Asset Management

Royal Insurance Group

Save & Prosper Group

Schroder Life Group

Scottish Widows' Group

Solar Life Assurance Limited

Standard Life Assurance Company

Sun Alliance Fund Mangmt. Ltd.

Sun Alliance Linked Life Ins. Ltd.

Sun Life of Canada (UK) Ltd.

Target Life Assurance Co. Ltd.

Transinternational Life Ins. Co. Ltd.

Trident Life Assurance Co. Ltd.

Tyndall Assurance/Pensions

Vanbrugh Life Assurance

Vanbrugh Pensions Limited

Welfare Insurance Co. Ltd.

Windsor Life Assur. Co. Ltd.

OFFSHORE & OVERSEAS FUNDS

Albany Fund Management Limited

Alexander Fund

Allen Harvey & Ross Inv. Mgt. (C.I.)

Alliance International Dollar Reserves

Arbuthnot Securities (C.I.) Limited

Bank of America International S.A.

Banque Bruxelles Lambert

Barbican Managers (Jersey) Ltd.

Barclays Unicorn International

Bishopsgate Commodity Ser. Ltd.

Bishopsgate Progressive—Ldn. Agents

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Britannia Tst. Mngmt. (C.I.) Ltd.

Brown Shipley Tst. Co. (Jersey) Ltd.

Butterfield Management Co. Ltd.

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Craigmount Fixed Int. Mngrs. (Jersey)

DWS Deutsche Ges. F. Wertpapiersp

Delta Group

Deutscher Investment-Trust

Dreyfus Intercontinental Inv. Fd.

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The English Association

Eurobond Holdings N.V.

F & C Mgmt. Ltd. Inv. Advisers

Fidelity Mgmt. & Res. (Bda.) Ltd.

Fidelity Mgmt. Research (Jersey) Ltd.

First Viking Commodity Trusts

Fleming Japan Fund S.A.

Frankfurt Trust Investment-GmbH

Free World Fund Ltd.

G.T. Management Ltd.

Gartmore Invest. Ltd. Ldn. Agts.

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Hambros (Guernsey) Ltd.

Henderson Baring Group

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Hill Samuel Invest. Mgmt. Int'l.

N.V. Interbeheer

International Pacific Inv. Mgmt. Ltd.

Jardine Fleming & Co. Ltd.

Leopold Joseph & Sons (Guernsey)

Kemp-Gee Management Jersey Ltd.

Keyser Ullmann Ltd.

Continued on previous page

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Five to Fifteen Years

Over Fifteen Years

Undated

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COMMONWEALTH AND AFRICAN LOANS

1M	1N	Sth. Africa 9½pc '79-81	92¾xd	27.3	10.30	15.59
1A	1O	Sth. Rhod. 2½pc '65-70	142	3'66	—	—
15Ja	15J	Do. 6pc '78-81	160	12'65	—	—

LOANS

Public Board and Ind.

1Ja	1J	Agric. Mt. 5pc '59-89	59½	3.12	8.68	13.10
30J	31D	Alcan 10½pc '89-94	79½	19.11	13.83	14.65
1M	1S	Met. Wtr. 3pc 'B'	27½	1.2	11.18	13.20
30J	31D	U.S.M.C. 9pc 1982	96	5.11	9.79	—
30J	31D	Do. without Warrants	91	5.11	10.40	16.20

LOANS—Continued

Financial

FOREIGN BONDS & RAILS

AMERICANS

CANADIANS

BANKS AND HIRE PURCHASE

BANKS & HP—Continued

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FINANCIAL TIMES

PUBLISHED IN LONDON & FRANKFURT

Head Office: The Financial Times Limited, Bracken House, 10 Cannon Street, London EC4P 4BY
Telex: Editorial 8954871. Advertisements: 885033. Telegrams: Finantimo, London.
Telephone: 01-248 8000.

Frankfurt Office: The Financial Times (Europe) Ltd., Frankenallee 68-72, 6000 Frankfurt-am-Main 1.
Telex: Editorial 416052. Commercial 416193. Telephone: Editorial 7598 234. Commercial 7598 1.

INTERNATIONAL AND BRITISH OFFICES

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هكذا من الأصل

INDUSTRIALS—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	Cvr	Yld Gr's	P/E
Nov.	Apr.	Hirst MaFson 20p	24	[illegible]	2.6	1.4	15.5	(4.6)
Jan.	July	Holden (A.)	82	[illegible]	†4.0	5.4	7.0	5.7
Feb.	Sept.	Hollis Bros.	43	[illegible]	†5.12	1.8	17.0	4.2
Dec.	July	Holt Lloyd Int. 10p	228	[illegible]	9.5	♦	6.1	♦
Apr.	Sept.	Hoover 'A'	165	[illegible]	12.0	0.9	10.4	(0.1)
Dec.	July	Hoskins & H 20p	112	[illegible]	8.8	1.5	10.7	7.8
Feb.	Oct.	Howard Tenens	69	[illegible]	b2.28	—	4.7	—
Nov.	July	Hunting Assoc.	340	[illegible]	5.0	♦	2.1	♦
July	Nov.	Huntleigh 10p	77	[illegible]	1.19	2.8	2.2	18.4
December		Hutch Whamp $HK1	71xd	[illegible]	M028c	♦	3.7	♦
Oct.	July	Hyman (I. & J.) 5p	17½xd	[illegible]	1.25	♦	10.2	♦
Ap.,Jy.,O.,Ja.		I.C. Industries $1	£11¼	[illegible]	Q$2.00	—	8.0	—
July	Feb.	ICL	131	[illegible]	b2.97	6.9	3.2	4.9
May	Nov.	Ingall Inds. 10p	24	[illegible]	t2.27	1.7	13.5	7.0
Jan.	Aug.	Initial Services	135	[illegible]	†5.5	2.5	5.8	8.0
Dec.	June	Inter-City 20p	12½	[illegible]	0.6	♦	6.9	♦
Jan.	July	J. & Holdings 10p	41	[illegible]	3.0	2.1	10.8	6.2
August		Jacksons Bourne	120	[illegible]	†♦3.0	3.3	3.6	12.4
Aug.	Jan.	James (M.) Ind. 20p	180½	[illegible]	20.75	3.3	5.8	11.1
Nov.	June	Jardine M. $HK5	132	25.4	M082c	♦	5.8	♦
Nov.	Dec.	Jentique	20½	25.2	2.48	1.6	17.3	3.8
—		Johnson & Barnes	5	11/75	—	—	—	1.9
Oct.	Apr.	Johnson Clnrs.	158	24.3	6.2	3.8	5.6	5.0
Feb.	Aug.	Johnson Mthy. £1	272	14.4	†8.5	2.9	4.5	9.3
Oct.	June	Jourdan (T.) 10p	54	14.4	4.2	0.6	11.1	28.9
May	Dec.	Kalamazoo 10p	66	28.4	3.75	1.6	8.1	11.1
Feb.	July	Kelsey Inds.	123	10.12	6.0	4.1	7.0	5.0
Oct.	April	Kennedy Sm. 10p	62	25.2	t2.8	3.7	6.4	8.2
Nov.	April	Kershaw (A.) 5p	290	25.2	b21.75	0.6	10.7	(0.0)
Jan.	Aug.	Kleen-E-Ze Hldgs.	76	28.12	d4.5	2.1	8.5	7.9
Jan.	Aug.	L.C.P. Hlds.	74	19.11	†b3.67	2.3	7.1	7.7
Dec.	Aug.	L.K. Ind'L Invs.	19	19.11	♦1.5	—	11.3	—
Oct.	April	L.R.C. Int. 10p	27	25.2	2.23	1.4	11.8	8.1
Dec.	May	Lawtex	51	19.11	†3.56	4.5	10.4	2.3
July	Nov.	Lead Inds. 50p	158	14.4	9.66	2.7	8.7	5.5
Jan.	Aug.	Leadenhall Sterling	83	28.4	3.12	3.3	5.4	8.1
Oct.	May	Le Bas (Ed.)	58	28.4	1.93	2.9	4.7	8.0
Mar.	Oct.	Lep Group 10p	255	28.12	†12.5	2.3	7.0	7.6
Jan.	July	Lesney Prods. 5p	19	5.11	d3.24	3.2	24.4	(1.4)
Feb.	Sept.	Letraset 10p	118	28.1	7.14	2.3	8.6	8.8
Jan.	July	Lilleshall 10p	54xd	12.5	3.5	3.8	9.3	3.0

INSURANCE—Continued

LEISURE

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING ADVERTISING

PROPERTY

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc.

FINANCE, LAND—Continued

OIL AND GAS

OVERSEAS TRADERS

RUBBERS AND SISALS

TEAS

India and Bangladesh

Sri Lanka

Africa

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Finance

Diamond and Platinum

Central African

MINES—Continued

Australian

Dividends Paid	Stock	Price	Last xd	Div Net	Cvr	Yld Gr's
—	Acmex 50c	24	—	—	—	—
—	ACM 20c	14½	—	—	—	—

Tins

Copper

Miscellaneous

NOTES

REGIONAL MARKETS

OPTIONS

3-month Call Rates

"Recent Issues" and "Rights" Page 22

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FINANCIAL TIMES

Tuesday May 27 1980

Diplomats play down optimism over U.S. hostages

Iran fact-finding trip ends

BY ANDREW WHITLEY IN TEHRAN

THREE European Socialist leaders, headed by Dr. Bruno Kreisky, the Austrian Chancellor, were due last night to end their brief fact-finding mission to Iran. Aimed at helping secure the release of the American hostages, the mission formed part of a series of initiatives now under way or in preparation.

However, diplomats here are deliberately playing down any optimism that these might be successful in the near future.

Dr. Kreisky, Mr. Olaf Palme and Sr. Felipe Gonzalez, the Swedish and Spanish opposition leaders, held several rounds of meetings yesterday with prominent Iranians. These included Mr. Abolhassan Bani Sadr, the President, and Ayatollah Mohammed Beheshti, his chief rival and leader of the militant Islamic Republican Party.

Later, a meeting with the full revolutionary council was planned. However, the mission failed to see Ayatollah Khomeini, as it had hoped. It apparently did not attempt to visit the 50 hostages, said to have been dispersed to 15 towns and cities *around* the country.

On the eve of their trip, the militant students holding the hostages issued a tough statement saying they would not permit any further meetings with their charges and calling on the Government not to press them to do so.

The two-day visit by the Socialist International's delegation overshadowed the return to Iran of Mr. Adid Davdi, of Syria, a member of the United Nations Commission charged with resolving the crisis.

Mr. Daudi arrived in Tehran on Saturday and has held one meeting with Mr. Sadeq Ootbzadeh, the Iranian Foreign Minister.

Mr. Daudi and Mr. Ootbzadeh are believed to be working to achieve the completion of the *UN Mission's* work, suspended in March when access to the hostages was vetoed by Ayatollah Khomeini, and the publication of its report.

Sources close to the Syrians said that after yesterday's meeting the gap between the *two sides* had been narrowed but not closed.

These two initiatives appear to be working along parallel lines. Meanwhile, other schemes considered have in the objective of public condemnation of the U.S. to pave the way for the release of the hostages. The schemes include an international conference of several hundred foreign notables to be held in the Iranian capital *from* next Monday.

Another proposal is that the new Parliament could hand the hostages over to a group of Third World countries, possibly pending the trial of the Shah in absentia or some kind of tribunal to investigate Iran's allegations of U.S. interference in its internal affairs during the Shah's rule.

The Parliament opens on Wednesday, but judging by recent statements is not expected to discuss the hostages for at least three weeks until it has agreed its own internal procedures and settled the question of a Prime Minister and Cabinet.

Strong £ nets £108m for BNOC

BY RAY DAFTER, ENERGY EDITOR

THE STRENGTH of sterling against the dollar has enabled British National Oil Corporation to pull off a coup in the international finance market. For almost three years it has been funding itself with $825m worth of loans—virtually cost-free.

Now that the bulk of the loans, raised in New York, have been repaid it has emerged that gains made on currency fluctuations have offset the amount of interest paid.

Between June, 1977, and last month BNOC paid *£110m in* interest charges. However, by repaying the loans with nil when sterling was much stronger against the dollar it has made a gain, even after tax, of £108m.

Therefore the $825m loan—a unique form of financing for a state corporation—has cost the corporation just £2m so far.

Mr. Alastair Morton, a managing director of BNOC and one of the architects of the financing, said: "It was a happenstance that the *exchange* rates moved as they did but it was a happenstance designed into the system as a possibility.

"We designed the financing *around a forward* oil sale arrangement, rather than a straight borrowing, in order to have the possibility of gaining from an improvement in sterling while being protected against a fall in the value of the pound. If sterling went down, BNOC's revenues went up."

With *an assistant recruited* from the City, Mr. Bill Harrison, Mr. Morton arranged the deal in 1977.

Under the arrangements BNOC *undertook* to deliver oil from 1981 to 1985 to the value of the U.S. financing. The oil has been channelled through a specially-formed U.S. Corporation, BritOil. Under a separate credit arrangement BritOil arranged with a consortium of UK and U.S. banks to borrow up to $825m, which was then passed on to BNOC under a forward oil sales agreement.

BNOC realised last year that it no longer needed all of the *financing*. It has been repaying the loans early. Today $275m remains outstanding.

This year BNOC could have pre-tax earnings of over £250m. It is expected that profits exceed £1bn by the mid-1980s.

The Government is still considering a number of schemes which would provide the public with a stake in the corporation. Industry reports suggest that Cabinet Ministers favour the issue of "oil bonds."

Continued from Page 1

Sadat

permanent U.S. base on Egyptian soil.

Egypt will also *regret* and *see* as a setback the resignation of Mr. Ezer Weizman from the key post of Israeli Minister of Defence. He was the Israeli leader to have *struck* up the closest and best relations with Mr. Sadat's regime and in particular General Hassan Ali, who until recently, was his counterpart.

His opposition to the more extremist expansionist policy measures favoured by the hardliners in Mr. Menachem Begin's coalition Government was appreciated.

Equally, however, the Egyptian Government will be well aware that Mr. Weizman's resignation will further weaken it and increase the chances of a General Election being called later *this* year, in Israel, rather than in November, 1981, when the mandate of the present Knesset expires.

David Lennon in Tel Aviv writes: Parties in the coalition government of Israel have begun intensive discussions to choose a successor for Mr. Ezer Weizman, the Defence Minister who resigned in disgust at the way the Government is handling both foreign and domestic policy.

Determined to survive this latest blow to its prestige, the crisis-ridden coalition of Mr. Menachem Begin apepars likely to choose between two men of hard-line views.

The two front-runners at the moment are Mr. Ariel Sharon, the Minister responsible for Israel's controversial settlement policy in the occupied territories, and Professor Moshe Aveins, chairman of the Knesset (Parliament) Foreign Affairs and Defence Committee. Mr. Begin, the *Prime Minister*, automatically assumes responsibility for defence in the interim.

It is always possible that Mr. Begin may decide to retain the portfolio himself or appoint an outsider.

Oil companies may face inquiry into dealings with retailers

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

AN INVESTIGATION into the relationship between the major oil companies and petrol retailers is being considered by the Office of Fair Trading under the Government's new powers to promote business competition.

The OFT is reviewing a number of complaints from independent petrol retailers, the Motor Agents Association, and some MPs that the big oil companies are trying to squeeze small *filling* stations out of business.

It is claimed that the oil companies have been keeping their own pump prices artificially low to force independent outlets to sell at uneconomic prices.

Some petrol retailers have also alleged — although with little real evidence — that they have been refused petrol supplies in an attempt to force them out of business.

At the same time the oil companies have created concern among the small garages they own by changing the ownership system from leases to licences.

The oil companies say that this is to enable the sites to be developed more fully. Tenants on leased sites, however, have the right to fix pump prices in much the same way as an independent dealer, but licenced sites enable the oil companies to effectively dictate pump prices.

Retailers' fears about the retail strategy of the major oil companies have arisen mainly because of the economic pressures on small *petrol stations*, especially in rural areas. Garage numbers have been falling steadily by about 1,000 outlets a year for the past decade and there are *fears* that this decline could accelerate in the 1980s.

The oil companies find it more economic to deal with large self-service petrol stations in urban areas, but they strongly deny any attempts to force small garages out of business.

A potential OFT investigation into the sector, under the Competition Act, depends on whether any clear-cut evidence can be found of attempts being made to reduce competition.

The Monopolies and Mergers Commission reported at the beginning of last year that the oil companies monopoly power did not operate against the public interest at that time.

The commission found that just over 50 per cent of all *petrol sales* in 1977 went through company-owned filling stations. More recent figures are understood to show that there has been little significant *increase in this proportion*.

And, in spite of complaints from *individual* petrol retailers, the OFT has been given no firm evidence that the oil companies are adopting "predatory pricing policies" to force small outlets out of business.

The OFT could decide to refer the issue again to the commission for a full investigation.

Mr. Gordon Borrie, director general of Fair Trading, was disappointed that the commission did not tackle the subject more fully in its last report, especially since it had been *specifically asked to do so*.

New system for deeper oil search, Page 4

Technology funding reviewed

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

AN URGENT study of the problems that high technology businesses *face* in raising capital for new and expanding ventures has been ordered by Sir Keith Joseph, Industry Secretary.

This follows two meetings which *Sir Keith has* held with founders of small businesses and with representatives of City institutions *during* which he has been told that a major financing gap exists in the high technology area.

Sir Keith is anxious that the *private sector* should *provide* sufficient finance, in spite of the risks involved, because he does not believe that industry should rely on state aid.

This week he is studying U.S. systems of raising capital during visits to high technology companies in Chicago and California.

The Industry Department is examining the complaints heard during Sir Keith's recent meetings and is to prepare him a report based partly on specific examples.

The first meeting was attended by five entrepreneurs from new *micro-electronic* companies and two representatives of financial institutions specially concerned with small business and start-up capital.

At the second meeting there were businessmen from six established micro-electronics companies and six representatives of pension funds, banks and other institutions.

All the businessmen stressed that there was insufficient start-up and development capital available. They said that a lack of communication between businesses and financial institutions was not the sole problem because the institutions often did not act when they heard of investment possibilities.

Machine tool industry 'backward'

FINANCIAL TIMES REPORTER

CRITICISM has been levelled at the way in which the machine tool industry spent nearly £100m of Government money between 1966 and 1978.

A study team says of the funding, which included *substantial* support for Alfred Herbert: "Too much has been spent on symptoms and too little on treating more fundamental ills."

This is one of the main conclusions in the study undertaken at the National Institute of Economic and Social Research, some of the results of which are *published today*.

It is suggested that the Government was right to be concerned that the UK's production and exports consisted too much of standard machines instead of those incorporating high technology.

However, subsidies for experimental and advanced machine tools, though perhaps helping to mitigate the industry's deficiencies, have not tackled the root causes of the problem "which seem to lie in a generalised technological backwardness."

An article about the study by Anne Daly and Daniel T. Jones, members of the study team, published in the National Institute Economic Review, concludes that by West German standards the extent and nature of technical training of the British labour force employed in the machine tool industry "seems seriously deficient."

Shortages of skilled manpower are endemic in this and related industries in Britain.

"About half of all employees in this industry in Britain and Germany are termed 'skilled craftsmen, but those so classified in Britain have not been required to attend any courses or pass any practical or theoretical test, it says.

"Equally, their remuneration is not dependent on the achievement of any certificated *standard*. This is *in great* contrast to Germany.

"Many attempts have been made in Britain to improve the supply of skills: but it is a mark of the intractability of the problem that, as recently as 1978, proposals still needed to be advanced for such fundamental matters as national tests of proficiency and the linking of remuneration to achievement of tested standards rather than to merely 'serving time'."

The most substantial element of Government investment in the industry went to the Alfred Herbert group.

With the encouragement of the Government-sponsored *Industrial Reorganisation* Corporation, Herbert was built up via mergers so that at its peak it accounted for nearly one-fifth of the British machine tool output.

"But, partly with the benefit of hindsight, we may question whether it was necessary to help increase the *size* of the very largest units," says the article.

Even in the very successful Germany machine tool industry, the median plant size has remained at under 500 employees. Yet at its peak Herbert's largest plant had 5,000 employees.

"There was no evidence that plants of this dimension were required for success in this industry.

"While marketing may be carried out more efficiently on a large scale and is an important factor in the success of a machine tool company, good engineering design is more *important*, and it is far from obvious that very large companies have any advantage

Hong Kong exchange merger agreed

By Our Foreign Staff

AGREEMENT has been reached after three years of argument on the mechanism for merging Hong Kong's four stock exchanges into a single unit. *But it will* probably be three years before the new exchange is in operation.

All members of existing *exchanges will* be able to buy membership of the new exchange, to be known as the Stock Exchange of Hong Kong. When this becomes operational, existing exchanges will be put into liquidation and their assets *distributed* to members. No account will be taken of any differentials in goodwill value between existing memberships of the exchanges.

Existing members who apply for membership seats on the new exchange will not be able to sell them for the first three years.

Shares in the new exchange will cost HK$40,000 (£3,654) on a part-paid basis. Eventual cost of a share will be decided by a transitional committee on the basis of how much capital is deemed necessary to acquire and equip premises and provide working capital. All members will have to show liquid assets of not less than HK$1m.

The liquidity requirement and the uncertain final costs of a seat make it likely that many existing brokers will decide it *is not* worth investing in the long-distance prospect of selling the seat at an eventual profit.

The Government would like to see a thinning out of the broking community. At present the four exchanges have a combined membership of 1,005, but only about half are active in the market. Very rough estimates suggest that about 500 will apply for membership of the new *exchange*.

Very soon, perhaps next month, the Government will introduce legislation to give statutory existence to the new *exchange and* enshrine its operational framework, and its monopoly, in law.

Applications will then be invited for membership. All membership arrangements must be completed within eight months of the legislation.

In the past the separate exchanges have only very begrudgingly responded to the Government's demands that *they merge. The Government* is thus likely to give itself reserve powers to ensure that the momentum towards bringing the Stock Exchange of Hong Kong into operation is not lost due to the infighting of entrenched interests.

Weather

UK TODAY

RATHER cloudy with occasional showers. Cool.

London, E. Cent. and S. England

Cloudy, bright intervals, showers. Cool Max 13-15C (55-59F).

W. and S.W. England, Wales, Lakes, I. of Man

Cloudy. Sunny intervals and showers. Wind north. Rather cool. Max 13-15C (15-59F).

Borders, Scotland, N. Ireland

Sunny intervals, showers, wind orth, moderate. Cool. Max 12C 150-54F).

OUTLOOK: Cool and unsettled, rain. Night frost.

WORLDWIDE

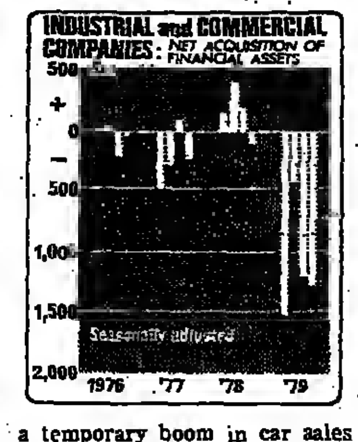
		Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	C	17	63	L. Pims.	F	21	70
Algiers	C	20	68	Locarno	C	16	61
Amsdm.	C	16	61	London	F	17	63
Athens	S	21	70	Luxmbg.	F	18	64
Bahrain	S	32	90	Luxor	S	41	106
Barcina.	R	16	64	Madrid	C	18	64
Belfast	F	12	54	Majorca	F	20	68
Belgrd.	S	21	70	Malaga	S	23	73
Berlin	C	15	59	Malta	S	20	68
Biarritz	C	15	59	M'chstr	C	15	59
Bmghm	F	15	59	Melbne	S	17	63
Blackpl	F	15	59	Milan	F	21	70
Bordx	C	15	59	Montreal	S	15	59
Boulgn.	S	14	57	Munich	S	19	66
Bristol	C	15	59	Nairobi	R	20	69
Brussels	F	17	63	Naples	F	21	70
Budpst.	F	21	70	Nwcstl.	F	14	57
B. Aires	S	19	66	N. York	S	19	66
Cairo	S	32	90	Nice	F	19	66
Cardiff	C	14	57	Oporto	F	17	63
Cape T.	C	18	64	Oslo	C	10	50
Cas'b'ca	F	21	70	Paris	F	19	66
Chicago	S	18	64	Prague	C	17	63
Cologne	F	17	63	Reykjvk	S	9	48
Cpnhgn.	C	13	55	Rhodes	S	20	68
Corfu	C	22	72	Rio J'o	S	28	82
Dublin	R	10	50	Rome	C	19	66
Dbrvnk	F	17	63	Salzbrg	S	21	70
Ednbgh.	C	13	55	Singapr.	C	31	88
Faro	F	21	70	Stckhm	C	10	50
Florence	F	21	70	Strasbg.	S	21	70
Frankfr	F	18	64	Sydney	C	21	69
Funchal	F	21	70	Tangier	C	20	68
Genova	S	21	70	Tehran	S	26	80
Gibrltr	C	21	70	Tel Aviv	S	24	75
Glasgow	C	15	59	Tenerife	F	19	66
G'rnsey	C	13	55	Tokyo	R	23	74
Helsinki	R	5	41	Toronto	S	19	66
H. Kong.	S	28	82	Tunis	C	20	68
Innsbrk.	F	23	73	Valencia	F	20	68
Invrnss	S	13	55	Venice	C	19	66
Istanbul	S	18	64	Vienna	S	20	68
Jersey	C	13	55	Warsaw	C	15	59
J.'burg	S	18	64	Zurich	S	20	68

C—Cloudy. F—Fair. R—Rain. S—Sunny.

THE LEX COLUMN

Companies prepare for the storm

Recessions are normally good news for the stock market. They bring a reduction in financial pressures, falling interest rates and rises in bond and share prices—although equities tend to lag some way behind the upturn in the fixed interest market. The UK stock market now appears to be passing through this interregnum; while gilt-edged prices have been erratically rising in recent weeks—the FT Government Securities index has put on 6 per cent or so *since its March* low point—the equity market has on balance tended to drift at best sideways over the same period, and in the past few days has been heading downwards under the influence of a stream of dismal company news.



Bearing the brunt

Besides the normal cyclical problems, manufacturing companies are bearing the full brunt of the *impact of North* Sea oil on the level of sterling. Reported company profits have generally been poor, although only in a few sectors like textiles have there been signs so far of serious financial problems. Somewhat surprisingly, company *chairmen* have until very recently been moderately optimistic about prospects.

It is plain, however, that April was a pretty dreadful month for new business levels across wide areas of industry—from ICI to GKN. Companies have been forced to take another look at their budgets, and often this appears to have led to a marked reduction in profit expectations. This does not, of course, apply to oil companies, and on present trends non-North Sea companies may soon be earning less than half the profits, net of stock appreciation, being generated in the whole UK company sector.

In the developing squeeze, companies have followed the textbook by begining to unload stocks and cut their capital spending. Department of Industry figures released last week for first quarter stock changes showed that manufacturers and distributors cut their inventory levels by about 2 per cent in the three months. This was approximately in line with the Budget time Treasury forecast of a £4bn or so cut in stocks in the whole of 1980 (a major cause of the forecast economic recession).

Clearly there were some special influences at work in the winter quarter. Stocks of steel and steel products were being used up during the strike, a temporary boom in car sales was helping BL and others to dispose of excessive inventories, and retailers had to dump goods left over after a disappointing Christmas.

Even so, the size of the reduction in stocks has surprised many analysts. The strength of bank lending in the past few months had suggested that cut*backs were on a less* dramatic scale, while it is puzzling that the really severe effect on industry's order intake did not come through until April. Does this mean that an even more savage period of stock reductions is now under way? The point *is crucial to* an *under*standing of whether the company sector is managing to cut its financial deficit—which rose last year to £4.7bn, the most *severe since* 1974 in real *terms* —or whether the worst is yet to come.

A new study of sector flows of funds by brokers Simon and Coates takes a relatively optimistic view here. The brokers estimate that industrial and commercial companies are currently in severe deficit—to the extent of about £4bn in the first six months of this year—but will trim this back to about £2.3bn in the second half, no worse than for the same period last year.

Stock reductions

The study assumes, however, that *the stock cuts* will not come until the second half of the year. If they are coming through earlier than expected, then the outlook could get worse rather *than better*. *In any case*, Simon and Coates is worried about a sharp rise in the company sector's deficit next year and in 1982 as a reflection of the Government's *plans to* trim the public sector deficit right back.

It could well be that tax has played an important part in recent fluctuations in inventories. Companies with December year-ends (and stores with January 31 reporting dates) will have been able to claim full stock relief and still make progress in running down stocks in the first calendar quarter.

Companies with March year-ends, however, will have had to wait until April to chop their buying orders back. And it was not until the Budget in late March that finance directors were given the assurance that temporary cuts in stock levels would not trigger an awkward demand for clawed back tax. That concession by the Chancellor could well have led to decisions to liquidate a significant element of stocks.

But the reduction of stocks is a strictly temporary cure for the financial difficulties of companies. In 1980 there is little scope, moreover, for it to be reinforced—as it was in 1975—by the sudden introduction of stock relief. At least this time round there are no price controls, so that at an annual rate of just over 19 per cent wholesale output prices are going up roughly in line with underlying inflation. But this is largely irrelevant to manufacturers of internationally traded goods.

Bitter experience

The conclusion must be that *a severe squeeze* on industry will persist. There is some comfort in the thought that many large companies gained enough bitter experience in the *1974 crisis to* be adept in applying the appropriate nasty medicine this time. But there must be concern that the smaller company sector—comparatively untouched last time outside property and construction—may be facing the full force of the squeeze in 1980.

The potentially alarming trends are highlighted in the latest quarterly review, published today, of the National Institute of Economic and Social Research. The NIESR has joined the London Business School in predicting a precipitous drop in non-North Sea *company profits*, which net of stock appreciation are forecast to collapse by 70 per cent in 1980 (with a further fall next year).

*On this basis the NIESR esti*mates that the industrial and commercial company sector will be in financial deficit to the extent of some $10bn this year, which in real terms is *comparable* to the record 1974 deficit, and the position will be *much* the same in 1981. Indeed, the deficits "may be as large as £15bn."

Registered at the Post Office. Printed by St. Clement's Press Ltd. and published by the Financial Times Ltd., Bracken House, Cannon Street, London EC4P 4BY. © The Financial Times Ltd. 1980.